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THESIS

Changing Concepts of Accounting for Treasury Stock As Reflected by the Published Reports of 391 Selected Industrial Corporations for the years 1939 through 1945.

by

George Edward Hargest
(Ed. M. Temple University 1937)

submitted in partial fulfillment of
the requirements for the degree of

MASTER OF BUSINESS ADMINISTRATION

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Chapter I

Introduction

Because there appears to be no common ground upon which agreement can be secured among accountants as to the precise nature of treasury stock, a continuing controversy centers about its proper accounting treatment. The area of disagreement encompasses such specific fundamental issues as the degree to which the legal differences between unissued stock and treasury stock require accounting recognition; the degree to which a distinction is made between the capital contributed to the corporation and the capital accumulated in the form of earned surplus as a result of the utilization of resources; the accounting relationship between the transaction involved in the reissue of treasury stock and the antecedent transaction that involved its reacquisition; the effect upon the capital stock and surplus accounts caused by the withdrawal of a shareholder from the business enterprise through the sale of his stock to the issuing corporation; and the enabling of a corporation to own a share of itself by virtue of its artificial, legal entity. Disagreement on issues so fundamental in character has elicited a variety of accounting treatments.

The accountant generally defines "treasury stock" as shares of capital stock of a corporation which have been

legally issued and have thereafter been acquired by the corporation and have not been formally retired.(1)

> "Most courts consider treasury stock to be corporate shares which have been issued and outstanding but later have been acquired by the issuing company through purchase, donation or in some other manner." (2)

Sunley and Carter define treasury stock as:

> "Shares which have once been issued and which have come back into the possession of the issuing corporation whether through purchase, donation or forfeiture are called "reacquired shares" and sometimes, "treasury shares", or "treasury stock", particularly when the shares are reissuable." (3)

Johnson (4) would make a distinction between "treasury stock" and "reacquired stock". He states that "stock that has never been fully paid up to its par value" is not considered properly as being "reacquired stock". The matter of a discount liability attaching to a share of reissued stock is discussed by Kester (5) who considers the right of the corporation to reissue stock at any price with-

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(1) Accountants Handbook, W. A. Paton, Editor, 3rd Edition, The Ronald Press Company, New York: 1944, p. 1007

(2) L. L. Briggs, "Treasury Stock and the Courts", Journal of Accountancy, vol. LVI, September, 1933, p.171

(3) Sunley, W. T. and Carter, W. J., Corporation Accounting, Ronald Press Company, New York: 1944, p. 83

(4) Johnson Arnold W., Elementary Accounting, Rinehart and Company, New York: 1946, p. 439

(5) Kester, Roy B., Advanced Accounting, 3rd Edition, The Ronald Press Company, New York: 1933, p. 446

out liability of the purchaser to creditors is restricted to shares once fully paid. Sanders, Hatfield and Moore(1) quote Professor Bonbright's statement to the effect that the likelihood that the holders of shares issued at a discount will be held liable for the amount of the discount is small.

Since a subscriber becomes a shareholder upon the acceptance of his subscription by the corporation, the stock authorized for issuance by the state, becomes legally issued stock at that time. For purpose of record, however, the objective test used to separate issued from unissued capital stock is the delivery of the stock certificate to the shareholder. Delivery is generally withheld until the shares have been paid for according to the terms of the subscription contracts.(2)

When a corporation acquires its own shares through forfeiture, either by statutory procedure of forfeiture or because of the insufficiency of bids offered at a public sale, such shares are held in the treasury of the corporation and partake of the nature of treasury stock. Forfeited shares differ from treasury stock acquired by purchase. Forfeited shares do not result in a restriction

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(1) Sanders, T. H., Hatfield, H. R. and Moore U., *A Statement of Accounting Principles, American Institute of Accountants, New York: 1938,* pp. 127-128

(2) *Accountants Handbook* p.983

upon earned surplus, but, in such statutes as those of Illinois and California, are specifically exempted from the prohibition against a corporation acquiring its own shares except out of earned surplus.(1)

For purposes of this thesis the terms, "reacquired stock", "reacquired shares", "treasury stock" and "treasury shares" are used synonomously.

In dealing with a matter of a controversial nature it is often desirable to refer to an "authority". The Securities and Exchange Commission faced this problem when it sought to have the words "...in conformity with generally accepted accounting principles..."(2) inserted in accountants' certificates. The Commission defined "generally accepted accounting principles" as being

> "the procedures prescribed by authoritative bodies such as the various accounting societies and governmental bodies having jurisdiction and also procedures ordinarily applied by accountants skilled in their profession". (3)

May,(4) in discussing accounting authorities specifically

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(1) Sunley, W. T. and Carter, W. J., op.cit. p. 125

(2) Committee on Auditing Procedure, Statement on Auditing Procedure No. 5, American Institute of Accountants, New York: 1941, p. 39

(3) ibid, p. 38

(4) May, George O., Financial Accounting, The Macmillan Company, New York: 1934, pp. 11-13

mentions the American Institute of Accountants, the American Accounting Association, the Securities and Exchange Commission and the National Association of Railroad and Utilities Commissioners. The publications of the American Institute of Accountants, the American Accounting Association and the Securities and Exchange Commission which deal with the subject of treasury stock, therefore, represent one of the primary sources of data for this thesis.

In 1938, the executive committee of the American Institute of Accountants authorized for publication "A Statement of Accounting Principles" (1) compiled by T. H. Sanders, H. R. Hatfield and U. Moore. With the view of ascertaining the prevailing methods of treatment of treasury stock, the authors made a study of 500 balance sheets for the years 1933 through 1936. In summarizing the results of this study, the authors made reference to a similar study made by Mortimer B. Daniels in 1930. A further study of this nature covering any of the years from 1936 to the present has not been found.

In 1940, the executive committee of the American Accounting Association approved for publication, "An Introduction to Corporate Accounting Standards", a monograph, by W. A. Paton and A. C. Littleton. The treatment of treasury

(1) Sanders, T. H., Hatfield, H. R. and Moore, U., op. cit. p. 90

stock (1) proposed in this monograph advocated a procedure different from that advocated in the Statement of Accounting Principles. The nature of treasury stock was conceived to rest upon premises different, if not opposed to those advocated by the executive committee of the Institute. This, however, was merely a monograph whose publication had been sponsored by the Association. The views expressed were those by the authors. The executive committee of the Association, however, did express its opinion upon the accounting treatment of treasury stock in "Accounting Principles Underlying Corporate Financial Statements", (2) a report of the Association's committee on accounting procedure published in 1941. This report recommended a treatment similar in all essentials to that advocated in the monograph by Paton and Littleton.

In 1940, the Securities and Exchange Commission introduced its regulations S-X for the form and content of financial statements (3) to exclude the displaying of

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(1) Paton, W.A. and Littleton, A. C., An Introduction to Corporate Accounting Standards, American Accounting Association, Chicago: 1940, p. 115

(2) American Accounting Association, "Accounting Principles Underlying Corporate Financial Statements", Accounting Review vol. XVI, June, 1941. p. 138

(3) Securities and Exchange Commission, "Regulations S-X Under the Securities Exchange Act of 1933, the Securities Exchange Act of 1934 and the Investment Company Act of 1940--Form and Content of Financial Statements as amended to and including June 20, 1941." United States Government Printing Office, Washington: 1941 Rule 3-16

treasury stock as an asset (a treatment permitted by the Statement of Accounting Principles) but allowed the alternative of three treatments, one of which was that advocated as the preferred treatment by the Institute, another was that advocated as the preferred treatment by the Association.

In 1939, the executive committee of the American Institute of Accountants published for the information of the members of the Institute the report of its committee on accounting procedure dealing with profits and losses on treasury stock. This was included in Accounting Research Bulletin No. 1 (1) and is unique in the respect that it was published without the approval or disapproval of the executive committee. The committee on accounting procedure did not feel that earned surplus could be increased by transactions in a corporations' own shares. Since it would be difficult to argue that a corporation could hold treasury stock as an asset, but could not realize a gain or suffer a loss by trading in that asset, the executive committee's decision was consistant with its views expressed in the "Statement of Accounting Principles".

(1) Committee on Accounting Procedure, American Institute of Accountants, Accounting Research Bulletin No. 1. American Institute of Accountants, New York, 1939, pp. 7-8

The view of the American Accounting Association as expressed in "Accounting Principles Underlying Corporate Financial Statements" was that profits or losses could not arise from transactions in a corporation's own stock. A similar view was taken by the Securities and Exchange Commission in Accounting Release No. 6. (1)

It appears that accounting authority is divided on the matter of the proper accounting treatment of treasury stock. The situation is further complicated by the diversity of state laws relating to treasury stock. While accounting standards dare not run counter to established legal principles, good accounting need not accept all definitions, policies and practices which legislators and the courts have added to the accounting structure. (2) The authority of law, however, cannot be underemphasized.

It is the purpose of this thesis to analyse the published balance sheets of 391 industrial corporations for the years 1939 through 1945 in order to determine (1) the treatment of treasury stock in each particular year, (2) any changes in the treatment of treasury stock and the year of such change (3) the relation of the year of change,

(1) Securities and Exchange Commission, Accounting Series Releases (Releases 1-52 inclusive, June 15, 1945). United States Government Printing Office, Washington: 1945. Release No. 6, p. 5

(2) Wixon, Rufus, "Legal Requirements and Accounting Standards". *Accounting Review*, vol. XX, April 1945, p. 139

if any, to the year of publication of the above mentioned statements of the accounting authorities, and (4) the extent to which the profession is bound by accounting authority.

Chapter II

A GENERAL SURVEY OF THE LEGAL ASPECTS OF TREASURY STOCK

1. Legal Theories

The legality of the reacquisition by a corporation of its own shares is, in general, based upon the "trust fund" theory. Briefly, this theory regards the legal capital of a corporation as a trust fund for the benefit of the creditors, or as a representation of capital relied upon by creditors, and operating as a fraud upon them if the representation is false.

The legal capital of a corporation is not always readily determinable. There are still a few states which have not by statute specifically defined legal or stated capital. The authority to issue stock comes from a grant by the state when the charter of incorporation is obtained. This grant is based upon the articles of incorporation, which specify the maximum number of shares which may be issued of each particular class of stock authorized. The legal capital, however, is not dependent upon this authorization, but is either a specified amount in respect to each share issued, or either all or part of the consideration received for each share issued. In some states the par value or the stated value of no par value shares constitutes the legal capital. In others, the directors may by resolution provide that a certain amount per each no par value share shall constitute

legal capital. Still in others, the consideration received is taken to constitute the legal captial of the corporation. Many states permit the corporation to apportion between capital and surplus the consideration received for no-par value shares.(1)

In Smith v. Dana,(2) the court ruled that the amount credited to capital stock

> "...constitutes a fund set apart and devoted to the corporate use and the security of the creditors...(and) its dedication is irrevocable, and it must ever remain a sum held in trust for creditors, unless some judicial or other process authorized by legislation intervenes."

The courts opinion in the case of Upton v. Tribilock(3) uses the terms capital stock and capital paid in to mean the same thing.

> "...the capital stock...is a fund for the payment of its (the corporation's) debts. It is a trust fund, of which the directors are trustees...The capital paid in...is a fund which the trustees cannot squander or give away."

In the case of Topken, Loring and Schwartz v. Schwartz,(4) the court ruled that a contract to purchase stock from a stockholder was illegal, since its enforcement would result in the impairment of the capital of the corporation and would thereby affect the rights of creditors.

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(1) Sunley, W. T. and Carter, W. J., op. cit., pp. 22-27

(2) 77 Connecticut 543 (1910)

(3) 91 U. S. 45, 47 (1876)

(4) 249 N. Y. 206 (1928)

The "trust fund" doctrine is succinctly stated in the courts opinion in the case of Hospes, et al. v. Northwestern Manufacturing and Car Company.(1)

> "...the capital of a corporation is the basis of its credit. ...they (creditors) have a right to assume that it has paid in capital to the amount which it represents itself as having; and if they give it credit in the faith of that representation, and if the representation is false, it is a fraud upon them."

There appears to exist some conflict between the "trust fund" theory and the concept of the legal entity of the corporation. Because the captial of a corporation cannot be reduced except by due process of law, treasury stock cannot legally result in a diminution of the "capital fund."(2) In the case of Crandall v. Lincoln(3) it was held that, although the shares were not retired and were carried in the books as treasury stock, the stock is not outstanding and the effect is the same as that of a reduction of capital because the directors can keep the stock in treasury for an indefinite period. The court, therefore, refused to imply any power of the corporation to make such a purchase. Chief Justice McSherry made the statement in Maryland Trust Company v. National Mechanics Bank (102 Md. 608 (1906)) that "...a corporation...diminishes its cap-

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(1) 48 Minnesota 174; So N.W. 117 (1902)

(2) Johnson, Arnold W., op. cit., p. 470

(3) 52 Connecticut 73 (1884)

ital to the extent of the shares so purchased."(1) Briggs(2) quotes Machen (Modern Law of Corporations, 514) as stating that the purchase by a corporation of its own stock is "a subtle method of evading the rule against unauthorized reduction of capital."

The general corporation statutes of all jurisdictions provide a formal method for the reduction of capital stock. In most states it is without doubt contrary to the intent of the legislature that a corporation shall effect an unannounced reduction of its announced capital stock by a purchase of its own shares and to be able thus to evade the statutes. In two states (Florida and Delaware) one of the statutory methods for the reduction of capital stock is through the purchase of shares.(3) It is significant, that although all of the states and territories provide for the formal reduction of corporate capital, many of these same states allow a corporation to purchase its own stock and hold it in the corporate treasury for an indefinite period of time.

Briggs(4) quotes Thompson as stating that it is not illegal for a corporation to retire its stock if it

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(1) L. L. Briggs, "Treasury Stock and the Courts," Journal of Accountancy, Vol. LVI, September, 1933, p. 178

(2) ibid. p. 179

(3) ibid. p. 179

(4) ibid. p. 180

has sufficient surplus so that the rights of creditors will not be adversely affected. In the case of Brown v. Fire Insurance Company of Chicago (265 Illinois App. 393 (1932)) (1) the court ruled that if the corporation had no debts it may purchase all of its own stock. The adequacy of surplus is necessary to the application of the "trust fund" theory. Since the capital stock of a corporation must be kept inviolate, the only net worth against which treasury stock can be applied must be surplus and, therefore, the amount of treasury stock purchasable is limited to the amount of the credit balance of the surplus account. Alaska, Arkansas, California, Florida, Louisiana, Maryland, New York, North Dakota, Ohio, Oklahoma, South Dakota, and Tennessee permit a corporation to purchase its own shares from surplus assets over liabilities and capital. The California law allows the purchase only from earned surplus, while in New York the directors of a corporation are guilty of a misdemeanor if they apply any funds except surplus to the purchase of shares of the corporation's own stock. (2)

Under the judicial decisions of a minority of the states the general rule was established that a corporation

(1) ibid. p. 181

(2) L. L. Briggs, "Treasury Stock and General Corporate Statutes," Journal of Accountancy, Vol. LV, May, 1933 p. 329

does not have the right to acquire shares of its own capital stock in the absense of express statutory permissions. The advocates of this minority doctrine argue that a purchase of a corporation's own stock from surplus is unjust because at the time of subscription the subscriber did not anticipate diversion of profits to permit a few members to retire their capital contributions and thereby delay the payment of dividends to the others. If the purchase price is above the book value, the share of the remaining stockholders in the surplus is lessened, while if the purchase price is below the book value, the interest of the rest of the stockholders in the surplus is increased. The sale of stock to the corporation at book value does not affect the equity of the remaining stockholders. Regardless of the price paid for the stock, surplus assets (in the payment) are paid out and consequently are not available for dividends to the stockholders who retained their shares in the company. In the minority view, a purchase by a corporation of its own stock is a nullity and may be set aside by an interested party.(1)

Under the minority doctrine a purchase of its own shares by a corporation is ultra vires and a court held that a bank was not able to collect from a corpora-

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(1) L. L. Briggs, "Treasury Stock and the Courts," op. cit. p. 180

tion a loan made to it for the purpose of such a purchase.(1) The transaction, however, is not so objectionable as to justify quo warrants against the corporation,(2) but a non-assenting stockholder may enjoin a proposed purchase of its own shares by a corporation.(3)

The advocates of the minority doctrine do not go so far as to say that there is a set rule that a corporation may not acquire its own stock. In the case of Morgan v. Lewis,(4) Chief Justice Owen ruled:

> "No inflexible rule has been recognized by this court that a corporation may not in any case, nor for any purpose receive its own stock. On the contrary, the way is left open for the application of exceptions to the general rule in proper cases."

Even when the purchase of treasury stock is prohibited by the laws of a state, the courts concede the right of a corporation to forfeited shares. In order that a corporation can protect itself from possible loss, it must have the power to recover stock when subscribers do not pay calls for assessments. (Draper v. Blackwell (1903) 138 Ala. 182)(5)

(1) Maryland Trust Co. v. National Mechanics Bank (1906) 102 Md. 608

(2) State v. Minesota Thresher Manufacturing Co. (1889) 40 Minn. 213

(3) Currier v. Labanon State Company (1875) 56 N.H. 262

(4) 46 Ohio St. 1 (1888)

(5) L.L. Briggs, "Treasury Stock and the Courts", op. cit. p. 181

It had been decided in numerous cases that the cancellation of an enforcible claim against a subscriber was parting with a valuable corporate asset. (Sawyer v. Hoag (1873) 17 Wall. (U.S.) 610; Payne v. Brillard (1851) 23 Miss. 88; Harmon v. Hunt (1895) 116 N.C. 678; Nichols v. Stevens (1894) 123 Mo. 96).(1)

The majority rule in the United States is that a corporation may acquire its own stock for legimate corporate purposes if the rights of creditors are not involved.(2)

The majority of states and territories permit the purchase by a corporation of its own shares. Thirteen states and territories have statutes providing for the purchase of treasury shares only out of surplus.(3) Colorado, Delaware, Indiana, Michigan, Nevada, Pennsylvania, Rhode Island, and West Virginia provide that the purchase of treasury stock must not impair the capital of a corporation.(4) In addition to the requirement that treasury stock

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(1) ibid. p. 181

(2) ibid. p. 185

(3) L.L. Briggs, "Treasury Stock and General Corporate Statutes", op. cit. p. 329

(4) ibid. p. 330

may be purchased only from surplus, California and Ohio prohibit such purchases if there is reasonable ground for believing that the company is unable or the purchase will make it unable to satisfy its obligations and liabilities.(1) Connecticut permits a corporation to purchase its own shares, but it must not render itself insolvent by so doing.(2) Maryland provides that the purchase must not reduce assets to less than the liabilities and capital and if a purchase is made when the corporation is insolvent the persons receiving payment are liable to the corporation, its trustees or receivers to the extent of such payment for the debts existing at the time of payment.(3) Connecticut, Louisana, Ohio and South Dakota require the approval of stockholders before allowing corporations to purchase their own shares.(4)

It appears, therefore, that the majority doctrine states have limited the right of a corporation to purchase shares of its own stock to purchases in good faith, when a corporation was solvent, and without injury or prejudice to creditors and minority stockholders.

(1) ibid. p. 330

(2) ibid. p. 330

(3) ibid. p. 331

(4) ibid. p. 331

2. A Survey of General Corporate Statutes Relating to Treasury Stock

The states that permit a corporation to purchase its own shares only out of surplus, when it is in a solvent condition and when such a purchase will not prejudice the interest of a creditor or a minority stockholder, have already been referred to as the majority doctrine states. Many of the states statutes, however, place additional restrictions upon the reacquisition of its own shares by a corporation. In other states the reacquisition of shares is permitted under certain conditions, although the state may prohibit the purchase of treasury stock.

California, Kentucky, Louisiana, Ohio, Vermont and Virginia will allow a corporation to acquire its own stock in satisfaction of an antecedent debt under conditions that would otherwise preclude the purchase of treasury shares. Connecticut permits a corporation to take its own stock in order to prevent a loss upon a debt previously contracted without the usual approval of the holders of three-fourths of the outstanding stock. In Vermont a corporation may acquire its own shares in payment or partial payment of a debt.(1) The length of time, however, that stock so acquired may be held is limited.(2)

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(1) ibid. p. 332

(2) Sanders, T.H., Hatfield, H.R., and Moore, U., op. cit. p. 130, note

Alaska, California, Idaho, Maine, Massachusetts and West Virginia permit a corporation to reacquire its shares through forfeiture for the non-payment of calls or assessments. California, Connecticut, Kentucky, Louisiana, Ohio, Vermont and Virginia allow a corporation to collect or compromise in good faith a debt, claim or controversy with any stockholder. Maine, Montana, South Dakota and Virginia permit a corporation to purchase its own shares sold at auction for assessments upon the default of a successful bidder. California and Idaho provide that defaulted shares must be sold at public auction and only in the absense of other bidders may the stock be purchased by the corporation. Utah permits a corporation to purchase its own shares at public auction for assessments if no one bids the amount of the assessments and its expense. The stock so acquired is required to be treated as treasury stock. In Arizona, a corporation may purchase its shares sold at public auction for non-payment of subscription, while Massachusetts provides that a corporation may take its stock if a judgment against a subscriber is unsatisfied for thirty days.(1)

California, Indiana, Kentucky, Maryland, Massachusetts, New Hampshire, Ohio, New York, Rhode Island and

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(1) L.L. Briggs, "Treasury Stock and General Corporate Statutes," op. cit. p. 132

Tennessee permit a corporation to buy out dissenting stockholders in case of radical corporation changes such as mergers or consolidations. Dissenters, however, are paid only if funds are available or if enough assets remain to satisfy corporate obligations. In Maryland, Ohio, and Tennessee the rights of dissenters must yield to the superior rights of creditors.(1)

Arkansas, Alabama, Delaware, Florida, Maryland, New Jersey and Porto Rico allow a corporation to reduce its capital stock by purchasing its own shares. In Rhode Island, a corporation may reduce its capital by retiring treasury shares upon the vote of the directors and upon complying with conditions of the charter or articles relating to retirement. Ohio provides that treasury stock not subjected to redemption may be retired and stated capital reduced by the directors and Indiana specifically permits the directors to cancel treasury stock. In Alaska, California, Louisiana, Maryland, and Ohio a corporation may purchase its own shares subject to redemption or to carry out provisions of its articles authorizing conversion of its shares.(2)

Arkansas, Colorado, Delaware, Florida, Indiana, Kentucky, Maryland, Nevada, North Dakota, Ohio, Tennessee,

(1) ibid. p. 333

(2) ibid. p. 334

Utah and West Virginia specifically state that a corporation may hold its own shares. In South Dakota a corporation can hold its own shares if authorized to do so by a resolution of the stockholders. In Vermont treasury stock is not held in the name of the corporation, but in the names of trustees for the corporation and must be disposed of as soon as possible without loss or within five years. In Montana, North Dakota and South Dakota corporations take legaltitle to treasury stock but it is subject to the control of the stockholders, who may dispose of it as they see fit or according to the by-laws of the corporation. Louisiana provides that reacquired shares are considered to be in treasury until disposed of by sale or reduction of stated capital. Maryland, on the other hand, considers that stock purchased for retirement has the status of authorized but unissued capital stock and may be retired without the proceedings necessary for the reduction of capital stock. Similarly, California provides that reacquired shares are restored to the status of authorized but unissued shares and stated capital is not reduced thereby. (1) New Mexico, North Carolina, Utah and Virginia provide that treasury shares cannot be voted. (2)

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(1) ibid. pp. 335-336

(2) Sanders, T.H., Hatfield, H.R., and Moore, U., op. cit. p. 130 (note)

Arkansas, Colorado, Florida, Idaho, Louisiana, Montana, Nevada, New Jersey, North Dakota, South Dakota, Tennessee and Utah provide that treasury stock must not be counted as outstanding for stockholders' quorum or voting purposes. The statutes of Alaska, Arkansas, Delaware, Indiana, Florida, Louisiana, Maine, Michigan, Nevada, North Dakota, Rhode Island, Oklahoma, South Dakota, and Tennessee allow a corporation to sell and transfer treasury shares they have acquired. In Vermont, Kentucky and Wyoming the selling of treasury shares is mandatory.(1)

3. The Weight of Legal Opinion Upon Treasury Stock as Reflected by Court Decisions

The courts, in general, have held that a corporation may purchase its own shares of stock when there is no statutory provision to the contrary. The "trust fund" theory is generally applied in determining the legality of the treasury stock purchase, however, and indiscriminate dealing by a corporation in its own shares is seldom allowed. This viewpoint was expressed by the court in the case of The United States Mining Company v. Camden:(2)

> "In the absence of charter or statutory prohibition, it is well settled, indeed the prevailing doctrine in the United

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(1) L.L. Briggs, "Treasury Stock and General Corporate Statutes", op. cit., pp. 336-339

(2) 106 Virginia 663

> States, that corporations may purchase, hold and sell shares of their own without intent to injure their creditors."

The courts have, at times, limited the purchase of the corporation's own shares "to a reasonable amount"(1) and for "legitimate corporate purposes."(2) In Lowe v. Pioneer Threshing Company (1895) 70 Fed. 646 the court held that in the absense of a charter or a statute forbidding it, the corporation could purchase its own shares out of the profits of the business, "where all of the stockholders assent thereto."(3) On the other hand, in the case of the Grace Securities Corporation v. Roberts a contract to purchase its own stock was enforced by the court since its enforcement did not injure creditors or non-assenting stockholders.(4)

It was held in the case of Dupee v. Boston Water Power Company(5) that the power to purchase its own stock may be "incidental and necessary to accomplish the object for which the corporation was created". In the case of the Iowa Lumber Company v. Foster the court ruled that a grant

(1) Fremont Carriage Manufacturing Company v. Thomsen (1902) 65 Nebraska 370

(2) Federal Mortgage Company v. Simes (1932) 245 N.W. 169

(3) L.L. Briggs, "Treasury Stock and the Courts", op. cit. p. 185

(4) 164 S. E. 700 (1932)

(5) 114 Massachusetts 37 (1873)

to acquire property generally for corporate purposes gives an implied power to the corporation to acquire its own stock.(1) There are many decisions to the effect that a corporation's own shares are personal property.(2)

Many courts have held that the purchase of its own shares by a corporation does not effect a reduction of its capital stock. In the case of Dupee v. Boston Water Power Company(3) the court said, "There is nothing...which amounts to a reduction of capital". In the case of Leonard v. Draper(4) it was held that a purchase by a corporation of its own stock was not a reduction of capital stock, because the shares were kept ready for reissue. In Borg v. International Silver Company, (1925) 11 Federal (2 nd) 149, the court did not see how it could be thought that the corporation had retired shares which it still held in treasury. The New Jersey statutes "...prescribe a method by which this could be done and there was no pretense of following it...".(5)

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(1) L.L. Briggs, "Treasury Stock and the Courts," op. cit. p. 185

(2) ibid. p. 186

(3) 114 Massachusetts 37 (1873)

(4) 187 Massachusetts 536 (1905)

(5) L.L. Briggs, "Treasury Stock and the Courts", op. cit. p. 187

Even when the laws of the state do not specify that treasury stock be purchased only out of surplus, the courts, in many instances, have enforced this rule. (Hall v. Henderson (1899) 126 Ala, 449; Gresselli Chemical Company v. Aetna Explosives Company (1918) 258 Fed. 66; Western and Southern Fire Insurance Co. v. Murphy (1916) 56 Okla. 702)(1)

A purchase by an insolvent corporation of its own shares is voidable since such a purchase is a fraud upon prior creditors. It represents a distribution of assets for which nothing of value to the creditors is received in return, and it is a fraud on subsequent creditors because they contracted on the faith of assets represented by the capital stock.(2) So far as the creditors are concerned, the acquisition of treasury stock by purchase when a corporation is insolvent has precisely the same effect as a transfer of capital to the stockholders by the payment of a dividend.(3)

A legal distinction between treasury stock and unissued stock which accountants often point out, is that

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(1) ibid. p. 187

(2) ibid. p. 188

(3) ibid. p. 189

treasury stock possesses no preemptive rights. The courts have upheld this view, refusing to grant to existing stockholders the right of preemption on a reissue of treasury stock which has been treated as general assets, (Borg v. International Silver Co. (1925) 11 Fed. (2 nd) 149) or when treasury stock has been held for a time in treasury (Crosby v. Stratton (1902) 17 Colorado App. 212).(1)

It may be stated in general, then, that the courts have been vitally interested in the protection of the interests of creditors and minority stockholders in passing upon the legality of a purchase of treasury stock. The "trust fund" theory is applied as a measure of the effect of a purchase of treasury shares upon these interests. Those states in which the purchase of treasury stock is prohibited, have permitted corporations to acquire their own shares in payment of debts due them, to prevent loss, to effect a composition settlement among stockholders, and for other legitimate corporate purposes. The majority of states allow the purchase of treasury shares, but have limited such purchases to those made in good faith, for legitimate corporate purposes, when the corporation is solvent and without injury to creditors or minority stockholders. It would appear, then, that these judically extented privileges and restrictions have yielded a liberal legal code in connection with the reacquisition of its own shares by a corporation.

(1) ibid. p. 197

Chapter III

CHANGING CONCEPTS OF ACCOUNTING PRINCIPLES OF TREASURY STOCK

1. Presentation of Treasury Stock on the Balance-Sheet

In 1910, when Henry Rand Hatfield (1) stated that unless stock was reacquired with the intent to reduce capital stock, accounting practice "requires that it be shown among the assets", he was expressing the prevailing practice at that time. In 1912, Herbert G. Stockwell (2) condemned the prevalent practice of calling unissued stock, "treasury stock" and showing its par value as an asset in the balance-sheet. After the stock is once issued, however, and is lawfully reacquired by the corporation, it is "real treasury stock (and) ...represents an asset of the corporation".

One of the earliest condemnations of the presentation of treasury stock on the balance-sheet as an asset was that made by W.A. Paton (3) in 1919. Fundamentally, Paton's thought is that authorized and unissued stock are not an accounting fact in the strict sense. It, therefore,

(1) Hatfield, Henry Rand, Modern Accounting, pp. 151-152

(2) Stockton, Herbert G., Net Worth and the Balance-Sheet pp. 99-100

(3) Paton, W. A., "Some Phases of Capital Stock", Journal of Accountancy, vol. XXVII, May 1919, pp. 321-335

follows that unissued stock is never an asset. Although there are certain legal differences between unissued stock and treasury stock, from the accounting viewpoint they are the same. Reacquired stock, like unissued stock represent merely the possibility of raising capital rather than an actual resource. A corporation can do two things with respect to its shares: (1) it can issue them to stockholders who make an investment in the corporation, or (2) it can contract outstanding shares by disbursing to the stockholder assets of the corporation. When the shares are issued, outstanding stock is increased; when stock is reacquired by the corporation, instead of being an asset, it is virtually a deduction from outstanding stock, whether formally retired or not. Since these shares may be by due process retired, it would be difficult to argue that their retirement destroyed an asset. Under these circumstances, treasury stock is never an asset. Paton reiterates these arguments in the first edition of "Accounting", (1) published in 1924.

In 1922, Roy B. Kester (2) disavowed treasury stock as an asset by stating that is proper treatment on the balance-sheet was as a deduction from capital stock. Budd and Wright (3) stated in 1927, however, that treasury stock

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(1) Paton, W. A., Accounting, pp. 748-750

(2) Kester, Roy B., Accounting Theory and Practice, 2nd Edition, vol. 1, p. 345

(3) Budd, T. A. and Wright, E. N., Interpretation of Accounts, p. 164

might be treated either as an asset or as a deduction from capital stock. In 1932, H. A. Finney (1) followed Kester's lead and illustrated the proper balance-sheet presentation of treasury stock as a deduction from capital stock, but did not specifically refer, either negatively or positively, to its asset treatment. By 1935, however, Finney was willing to state that treasury stock could be considered an asset under no circumstances, but slightly modified Paton's argument. Finney's point of view was that the balance-sheet should reflect the present condition of the business andpay no heed to future intentions or prospects. Since stock held in treasury was not outstanding, the cpaital stock element of net worth had been reduced and this reduction should be reflected on the balance-sheet. (2) In the same year, Porter and Fiske, (3) following closely the arguments of Paton, condemned the asset presentation of treasury stock. Husband and Thomas, (4) also in 1935, stated that treasury

(1) Finney, H. A., Introduction to the Principles of Accounting, Prentice-Hall, Inc., New York: 1932. p. 353

(2) Finney, H. A., Principles of Accounting-Intermediate vol. 1. Prentice-Hall, Inc., New York: 1935. p. 88

(3) Porter, C. H. and Fiske, W. P., Accounting. Henry Holt and Company, New York: 1935. p. 483

(4) Husband, G. R. and Thomas, O. E., Principles of Accounting, Houghton Mifflin Company, Boston: 1935 p. 385

stock was not an asset. In the same year, however, McKinsey and Noble (1) stated that although treasury stock was often shown as an asset "it was more desirable to deduct it from capital stock."

Although the academic accounting authorities, by 1935, appear to have agreed that treasury stock was not an asset, there was no such uniformity of opinion in accounting practice. Many professional and practicing accountants argued that the purchase of treasury stock represented merely an exchange of the asset "cash" for another asset "treasury stock". The stock represented an investment, like any other investment, and that, therefore, the accounts and the balance-sheet should have shown the item as it would have shown any other asset. Furthermore, they held that, until such treasury shares were actually cancelled and retired, they could have been resold. This theory was qualified, however, by adding that if it was the intention of the corporate officials to cancel the stock, the amount purchased should have been deducted from capital stock on the balance-sheet; but if the intention was to sell the stock, the amount should have been shown as an asset. (2)

(1) McKinsey, J. O. and Noble, H. S., Principles of Accounting. South-western Publishing Company, Cincinnati: 1935 p. 493

(2) Rosenkampff, A. H. and Wider, William, Theory of Accounts New York University Bookstore, New York: 1941. p. 573

In 1930, Mortimer B. Daniels found that treasury stock was treated as an asset in 61 per cent of the balance-sheets in which that item appeared.(1) Out of 500 balance-sheets examined by Sanders, Hatfield and Moore(2) for the year of 1933, 356 contained items of reacquired shares and of this number 159 listed treasury stock as an asset. By 1936, 86 balance-sheets out of a total of 307 listed treasury stock, in various forms, as an asset. In 1936, then, approximately 28 per cent of the balance-sheets presenting the item of treasury stock listed it as an asset, while in 1933, similarly, 45 per cent were so listed, and, while the statistics are not strictly comparable, in 1930, 61 per cent of the balance-sheets presenting treasury stock, listed this item as an asset. The trend was definitely away from the asset presentation, but still did not demonstrate the relatively solid front presented by the academic accountants.

Recognizing that long usage had established the custom of showing treasury stock at cost on the asset side of the balance-sheet, the first regulations of the Securities and Exchange Commission (Instruction Book for Form 10-K for annual reports of corporations, item 8, IV, 10)

(1) Sanders, T. H., Hatfield, H. R. and Moore, Underhill, op. cit. p. 90

(2) ibid. p. 90

allowed treasury stock to be displayed under the heading of "Other Security Investments".(1)

in 1938, the executive committee of the American Institute of Accountants published "A Statement of Accounting Principles" prepared by T. H. Sanders, H. R. Hatfield and U. Moore. Although the authors felt that treasury stock was not "strictly speaking"(2) an asset, it would be unwise to make a fixed rule, since some circumstances "...seem to require, or at least to justify,...(such a) treatment".(3)

At the fifty-first annual meeting of the American Institute of Accountants (1938) Albert J. Watson(4) presented a paper entitled "Principles Related to Treasury Stock". In this paper, Mr. Watson discloses that the American Institute of Accountants had given the subject considerable thought. He stated that the matter was first considered by the committee on state corporation laws, of which he was a member, and that this committee delivered a report to

(1) Greidinger, B. Bernard, Accounting Requirements of the Securities and Exchange Commission. The Ronald Press Company, New York: 1940, p. 169

(2) Sanders, T. H., Hatfield, H. R. and Moore, U., op. cit. p. 90

(3) ibid. p. 90

(4) Watson, Albert J., "Principles Related to Treasury Stock", Accounting Principles and Procedures. (Papers Presented At the 51st Annual Meeting of the American Institute of Accountants) American Institute of Accountants, New York: 1938. pp. 31-35

the council of the American Institute, dated January 2, 1935. This report dealt exclusively with the subject of treasury stock and was primarily interested in the effect of the then existing state corporation laws relating to stated capital upon the balance-sheet presentation of treasury stock. A later report issued to the executive committee on November 11, 1935, made seven specific suggestions for the treatment of treasury stock on the balance-sheet. Mr. Watson suggests that this report may have been turned over to the special committee on the development of accounting principles, since the Statement of Accounting Principles agreed with the committee's report. He stated that he was not advised of what final action was taken with regard to the reports of the committee on state corporation laws, as these reports were never published. Mr. Watson, however, was not in agreement with the opinion expressed in the reports of the committee on state corporation laws and, hence, the treatment recommended in the Statement of Accounting Principles. Disregarding the legal concept of the corporate entity, Mr. Watson believed that stockholders were partners in a joint enterprise, and when the corporation reacquired its own shares the assets of the corporation were reduced, and similarly, this must have been reflected in a reduction in either capital or surplus. He could not be convinced that a corporation could own a share of itself, nor could he agree with those who argued that because reacquired shares may be

resold, they represented an asset to the corporation. "Are they not the same kind of asset as---authorized and unissued shares•••?"(1)

> "Although there are legal differences, do sound accounting principles justify the concept that a portion of the net worth, expressed in shares reacquired by a corporation, is an asset, whereas the retirement and payment of capital of a partner simply reduces the partnership capital?" (2)

Paton(3) states that Mr. Watson was the first outstanding professional accountant to express the position that treasury shares are never an asset "without any qualification or hedging".

In 1940, Calvin H. Rankin(4) in a paper presented at a meeting of the American Accounting Association voiced the opinion that treasury shares have substantially the status of unissued shares from both legal and financial standpoints. Rankin notes that treasury shares may differ from unissued shares with respect to the minor question of right of preemption, but he takes the definite position that

(1) ibid. p. 33

(2) ibid. p. 33

(3) Paton, W. A., "Accounting Principles -Balance-Sheet", Contemporary Accounting, T. W. Leland, editor. American Institute of Accountants, New York: 1945, Chapter II, p. 22

(4) Rankin, Calvin, "Treasury Stock: A Source of Profit or Loss", Accounting Review, vol. XV, March, 1940 pp. 71-77

there is no difference requiring accounting recognition.

In 1940, the American Accounting Association published "An Introduction to Corporate Accounting Standards" by W. A. Paton and A. C. Littleton.(1) The authors consider that treasury stock is not an asset and state:

> "The acquisition of outstanding shares by the issuing company is in effect a withdrawal of invested assets by the security holder."

This statement by Paton and Littleton presented in greater detail the position already taken by the American Accounting Association in 1936 which had been published in "The Tentative Statement of Accounting Principles Affecting Corporate Reports".(2) In 1941, the executive committee of the American Accounting Association approved for publication, "Accounting Principles Underlying Corporate Financial Statements",(3) in which the asset treatment of treasury stock was disavowed.

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(1) Paton, W. A. and Littleton, A. C., An Introduction to Corporate Accounting Standards. American Accounting Association, Chicago: 1940. p. 115

(2) American Accounting Association, "The Tentative Statement of Accounting Principles Affecting Corporate Reports". Accounting Review, vol. XI, June, 1936, p. 188

(3) American Accounting Association, "Accounting Principles Underlying Corporate Financial Statements". Accounting Review, vol. XVI, June, 1941. p. 138

In 1940 the Securities and Exchange Commission (1) introduced its regulations S-X and excluded the displaying of treasury stock as an asset. The statement is as follows:

> Reacquired shares, if significant in amount, shall be shown separately as a deduction from capital shares, or from the total of capital shares and surplus or from surplus, at either par or stated value, or cost, as circumstances require.

Victor H. Stempf (2) gave his unqualified endorsement to the American Accounting Association's statement of Accounting Principles and commented upon the changed S-X regulations. He pointed out that the first regulations of the S. E. C. had permitted treasury stock to be treated as an asset. That option, however, had been eliminated although there still remain some arguments justifying the asset treatment when the shares are specifically held to fill compensation commitments, or under similar circumstances.

Traditionally, except where treasury stock has been shown as an asset, reacquired shares have been deducted from the related class of issued capital stock. (3) This

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(1) Securities and Exchange Commission, Regulations S-X Under the Securities Exchange Act of 1933, the Securities Exchange Act of 1934 and the Investment Company Act of 1940.--Form and Content of Financial Statements as amended to and including June 20, 1941. United States Government Printing Office, Washington: 1941, Rule 3-16.

(2) Stempf, Victor H., "Accounting Standards-Reacquired Shares," Journal of Accountancy, vol. LXXII, August, 1941, p. 133

(3) ibid. p. 133

treatment appears to have been favored by most academic accountants during the period from 1935 to 1941. Its use has been advocated at various times by Kester,(1) Finney,(2) Porter and Fiske,(3) Prickett and Mikesell,(4) Rorem and Kerrigan,(5) Bolan,(6) Taylor and Miller,(7) McFarland and Ayers,(8) Noble, Karrenbrock and Simons,(9) Husband

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(1) Kester, Roy B., op. cit., p. 345

(2) Finney, H. A., op. cit., p. 88

(3) Porter and Fiske, op. cit., p. 483

(4) Prickett, Alva L. and Mikesell, R. Merrill, *Principles of Accounting*, Revised Edition. The Macmillan Company, New York: 1937. p. 420

(5) Rorem, C. Rufus and Kerrigan, Henry D., *Accounting Method*, 3rd Edition. McGraw-Hill Book Company, Inc., New York: 1942. pp. 447-448

(6) Bolan, Dallas S., *Introduction to Accounting*, 2nd Edition. John Wiley and Sons, Inc., New York: 1938. pp. 446-448

(7) Taylor, J. B. and Miller, H. C., *Intermediate Accounting*, 2nd Edition. McGraw-Hill Book Company, Inc., New York: 1938. pp. 220-221

(8) MacFarland, George A. and Ayers, Robert D., *Accounting Fundamentals*. McGraw-Hill Book Company, Inc., New York: 1936. p. 354

(9) Noble, H. S., Karrenbrock, W. E. and Simons, Henry, *Advanced Accounting*. South-Western Publishing Company, Cincinnati: 1941. pp. 241-244

and Thomas,(1) Wade,(2) Kohler and Morrison,(3) Rosenkampff and Wider,(4) and others.

Those who advocate this treatment argue that the purchase of treasury stock in effect, represents a decrease in capital through the retirement of the stockholder. There are similarities between unissued shares and treasury stock, but there are, also differences, and, therefore, they cannot be mixed.(5) By deducting the treasury shares from those issued, the outstanding shares are displayed and the value of these shares is reflected in the balance-sheet.

The critics of this method point out that treasury shares are issued shares(6) and should be reflected as such on the balance-sheet. The showing of the value of only the outstanding shares violates the "trust fund" theory.

(1) Husband, G. R. and Thomas, O. E., op. cit., p. 385

(2) Wade, T. S., *Fundamentals of Accounting*, 2nd Edition, John Wiley and Sons, Inc., New York: 1941. pp. 231-232

(3) Kohler, Eric L. and Morrison, P. L., *Principles of Accounting*, 2nd Edition. McGraw-Hill Book Company, Inc., New York: 1931. p. 262

(4) Rosenkampff, Arthur H. and Wider W., op. cit., pp. 563-568

(5) Sanders, T. H., Hatfield, H. R. and Moore, U., op. cit., p. 90

(6) Finney, H. A., *Principles of Accounting-Intermediate* 3rd Edition, Prentice-Hall, Inc., New York: 1946, p. 141

> "Even though the figure extended, after deducting reacquired shares from capital, may be called the amount of capital relating to outstanding shares, this treatment offends the law which prohibits the reduction of the trust fund by other than formal action." (1)

The "Statement of Accounting Principles" stated that "...reacquired stock should preferable be shown as a deduction from capital stock issued". (2) In support of this treatment the committee stated that reacquired stock should be kept distinct in all records from unissued and canceled stock. Because there are certain distinctions between legal requirements and regulations for the original issue of capital stock and the freedom for disposing of reacquired stock, there should be a separate statement of unissued and reacquired stock in the records and on the balance-sheet. (3) It will be noted that the committee in presenting "A Statement of Accounting Principles" does not suggest an alternative treatment; alternative treatments, however, were being suggested in 1938.

Albert J. Watson in a paper presented at the annual meeting of the American Institute of Accountants disagreed with the committee and stated that reacquired shares, stated at cost of acquisition, should be recorded in a

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(1) Stempf, Victor, op. cit., p. 133

(2) Sanders, T. H., Hatfield, H. R. and Moore, U., op. cit., pp. 89-90

(3) ibid. p. 90

separate account.

> "and the balance-sheet should show that these shares are in suspense by deducting the cost thereof from the total of the capital and surplus accounts so that the net equity or net worth of the remaining stockholders may be ascertained." (1)

In the 1938 revision of Kester's (2) "Principles of Accounting", treasury stock is presented both as a deduction from capital stock and as an unallocated deduction at cost from the sum of capital stock and surplus. Legal capital is set forth and is identified as such and includes paid in surplus. While two methods are presented for par value stock when reacquired shares are reissuable, the above method is recommended. This balance-sheet presentation of treasury shares is substantially the same as that advocated by the American Accounting Association three years later. (3)

When treasury stock is presented as an unallocated deduction at cost from the sum of capital stock and surplus, such treatment is termed the "suspense treatment", and is so used throughout this thesis. In publications between 1938 and 1942 there appears to be an increasing tendency to mention the "suspense treatment", but few were willing to recommend it as the preferred treatment. In

(1) Watson, Albert J., op. cit., p.33

(2) Kester, Roy B., Principles of Accounting, 4th Edition The Ronald Press Co. New York: 1938, pp. 451-452

(3) American Accounting Association, op. cit. p. 138

1941, Rosenkampff and Wider (1) stated:

> "The authors are substantially in agreement with those who hold that treasury stock is a deduction from net worth of a corporation. Again ....(the authors) contend that such treatment does not show with sufficient clarity the effect of the purchase of treasury stock upon both the capital stock and the earned surplus."

Newlove, Smith and White (2) merely mention that the suspense treatment is acceptable to the Securities and Exchange Commission, but recommend the deduction of the par value of treasury stock from Capital Stock. Noble, Karrenbrock and Simons (3) and Rorem and Kerrigan (4) mention the suspense treatment, but do not recommend it, while Hatfield, Sanders and Burton (5) illustrate both methods but make no recommendation.

In 1941, the American Accounting Association published, with the approval of its executive committee, "Accounting Principles Underlying Corporate Financial

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(1) Rosenkampff, A. H. and Wider, W., op. cit., p. 575

(2) Newlove, G. G., Smith, C. A. and White, J. A., *Intermediate Accounting*. C. D. Heath and Company, New York: 1939, p. 344

(3) Noble, H. S., Karrenbrock, W. E. and Simons, H., op. cit. pp. 241-244

(4) Rorem, C. Rufus and Kerrigan, H. E., op. cit. pp. 447-448

(5) Hatfield, H. R., Sanders, T. H. and Burton, N. L., *Accounting Principles and Practices*. Ginn and Company, Boston: 1940, pp. 256-257

Statements". This statement admitted only one treatment for treasury stock, as follows:

> "The outlay for reacquired shares of capital stock, provided the shares are reissuable, should be shown on the balance-sheet as an unallocated reduction of capital stock and surplus, and any consequent restriction on surplus distributions should be disclosed." (1)

The suspense treatment, as advocated by the American Accounting Association, has been endorsed by a number of accounting authorities. Some of these authorities, while willing to accept the suspense treatment in its broadest aspects, did not agree with the method advocated therein of accounting for the retirement or the resale of treasury stock. Paton (2) states:

> "The suspense treatment of the cost of treasury shares recommended by the American Accounting Association's committee is not objectionable provided it does not lead later (upon concellation or reissue) to failure to dispose of the total amount paid to the retiring stock holders when the shares were acquired."

(1) American Accounting Association, "Accounting Principles Underlying Corporate Financial Statements," Accounting Review, vol. XVI, June, 1941, p. 138

(2) Paton, W. A., "Accounting Principles-Balance-Sheet," Contemporary Accounting, T. W. Leland, editor. American Institute of Accountants, New York: 1945, Chapter II, p. 23

Finney (1) in the third edition of his "Principles of Accounting-Intermediate", states that the method of deducting treasury shares from capital stock is no longer considered the best practice. The present consensus among accountants appears to be in favor of recording all treasury stock acquired at the cost thereof. Although there is a considerable debate about the proper balance-sheet presentation and there does not appear to be any unanimity of opinion as to the best procedure, there is general agreement on two points: (1) the capital stock element of the proprietorship equity should be shown at the par value of the issued stock; (2) the surplus restriction must be adequately indicated. Finney then presents by way of illustration a balance-sheet demonstrating the suspense treatment.

Stempf (2) gave his unqualified endorsement to the American Accounting Associations' proposal that when reacquired shares are reissuable they should be shown in the balance-sheet as a deduction from the sum of capital stock and surplus. The "Accountants' Handbook" states that the suspense treatment is a "common---(and) recent tendency". (3)

(1) Finney, H. A., Principles of Accounting-Intermediate 3rd Edition, Prentice-Hall, Inc., New York: 1946 pp. 142-144

(2) Stempf, Victor H., op. cit. p. 133

(3) Accountants' Handbook, 3rd Edition, W. A. Paton, Editor The Ronald Press Company, New York: 1944, p. 1009

The direct deduction of treasury stock from surplus does not appear to find many advocates. Stempf (1) states that this treatment does not violate the trust fund theory but it does lend the inference that the treasury stock is committed indefinitely as such: that there is neither intention of retirement nor of resale. This is illogical, he states, although this treatment is prescribed by the laws of certain states. Finney (2) states that the procedure is objectionable on the grounds that it indicates an actual reduction in surplus, instead of a restriction. Kohler (3) states that the procedure is less common than the suspense treatment.

2. Transactions in Treasury Stock and their Relation to Corporate Surplus

When it was the custom to show treasury stock on the balance-sheet as an asset, gains or losses from its disposition were regarded as belonging to earned surplus. These gains or losses were measured by applying the average cost of acquisition against the amount received when

(1) Stempf, Victor H., op. cit., p. 133

(2) Finney, H. A., op. cit., p. 142

(3) Kohler, Eric L., "Accounting Principles-Surplus," Contemporary Accounting, T. W. Leland, Editor, American Institute of Accountants, New York: 1945, Ch. IV, p. 5

the shares were reissued.(1) With the advent of the treatment of treasury stock as a deduction from capital stock, gains or losses were measured by the difference between the consideration received and the par value, in the case of par value shares, or cost in the case of no par value shares. These gains or losses were at first regarded as belonging to earned surplus(2) and later to capital surplus or paid-in surplus.

In 1940, Paton and Littleton(3) explained in greater detail the method of accounting for the retirement or reissue of treasury shares advocated in the "Tentative Statement of Accounting Principles Affecting Corporate Reports". This restatement of "proposition D7",(4) one of the twenty propositions included in the statement, draws a clear distinction between capital contributed to the corporation and the capital accumulated in the form of earned surplus and excludes from earned surplus any "gains" arising from transactions in the corporation's own shares subsequent to the date of issue. It is held that such gains are more closely allied with paid-in surplus and

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(1) Kohler, Eric L., op. cit., ch. 4, p.6

(2) ibid. ch.4, p. 6

(3) Paton, W.A. and Littleton, A.C., op. cit., p. 115

(4) American Accounting Association, "The Tentative Statement of Accounting Principles Affecting Corporate Reports", op. cit., p. 188

should be so reported. When the reacquisition or retirement of particular shares requires payments to the shareholders in excess of paid-in capital, the net effect is a special distribution of earned surplus in the amount of the excess.

> "If the shares are not reissuable, or if they take the status of unissued or retired shares, the amount paid should be charged to capital stock account up to the amount originally credited therein; any balance remaining should be charged to paid-in surplus up to an amount not in excess of the pro-rata portion of paid-in surplus applicable to the shares in question; any part of the total payment which cannot be thus absorbed should be charged to earned surplus. Any gain derived from retiring shares being in the nature of a contribution to capital in the form of a donation or forgiven debt, should be credited to paid-in surplus." (1)

It is emphasized that earned surplus is involved only in case the whole cost of reacquired shares cannot be properly allocated otherwise or when the stock is surrendered at a price above its book value, since the corporation is thus making a "donation" to the person who has surrendered his claim upon the assets.(2)

This treatment of the reacquisition and retirement of the corporation's own shares requires that the

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(1) Paton, W. A. and Littleton, A. C., op. cit. p. 115

(2) ibid, p. 115

average cost per share of treasury stock and the pro-rata portion of paid-in surplus attributible to the shares reacquired be computed. The following data is assumed in order that a few illustrative transactions may be presented:

Capital Stock and Surplus

Common stock-10,000 shares authorized and issued at par of $100, of which 1504 shares have been reacquired	$1,000,000.00
Paid-in Surplus from sales and resales of Capital Stock	105,216.50
Earned surplus, of which $216,576.00 is restricted by the purchase of treasury stock	564,406.64
Total paid-in capital and earned surplus	$1,669,623.14
Less-1504 shares of treasury stock at cost	216,576.00
	$1,453,047.14

The average cost of treasury stock, per share	$144.00
Paid-in surplus, per share	10.52165

If it is assumed that 100 shares are resold at $170 per share, the journal entries would be:

Cash	$17,000.00	
Paid-in Surplus		$ 2,600.00
Treasury stock--cost		14,400.00
Earned Surplus Restriction for Treasury stock purchased	14,400.00	
Earned Surplus		14,400.00

The excess of selling price over the cost of the treasury shares is paid-in surplus because it represents the contribution of fresh capital to the business. The paid-in surplus is thus increased from $10.52165 to $10.78165 per issued share of common stock.

If 100 shares of the reacquired stock were sold at $120 per share, the journal entries would be:

Cash	$12,000.00	
Earned Surplus	2,400.00	
Treasury stock-cost		$14,400.00
Earned Surplus restriction for Treasury Stock Purchased	14,400.00	
Earned Surplus		14,400.00

Where the selling price is less than the cost and equals or exceeds the ratable paid-in capital (which in this case would be the par of the shares plus $10.52165 per share of paid-in surplus, or a total of $11,052.17) assignable to the repurchased shares, the excess of cost is an effective distribution of earned surplus to the old stockholders from whom the stock was acquired. The book value per share of outstanding stock is thereby reduced from $171.3830 to $157.1616 per share.

But if the 100 shares of repurchased stock were sold at $102 per share, the journal entries would be:

Cash	$10,200.00	
Paid-in surplus	852.17	
Earned surplus	3,347.83	
Cash		$14,400.00
Earned Surplus Restriction for Treasury Stock purchased	14,400.00	
Earned Surplus		14,400.00

When the selling price is less than both cost and the applicable paid-in capital, a refund of a portion of the latter is made to the retiring stockholder. The selling price is applied until it is exhausted to three possible elements of the average purchase price, commencing with legal capital, following with paid-in surplus, and ending with earned surplus. In this case $2.00 per share of paid-in capital was recovered leaving $8.52165 to be charged off, together with the unrecovered amount of earned surplus.

When shares are repurchased the cost thereof is recorded in a suspense account. If, for example, 100 shares were repurchased at the average price of $144 per share the entries would be:

Treasury stock- cost	$14,400.00	
Cash		$14,400.00
Earned Surplus	14,400.00	
Earned Surplus Restriction for Treasury Stock Purchased		14,400.00

This treatment emphasized the transitional or suspense character of treasury stock. Its disposition hinges upon retirement or resale and it is distinguished from unissued stock. Its cost is averaged with other treasury shares of the same class from the date of its acquisition. When sold or retired the average cost is applied against the selling price or the legal capital. Capital paid-in on a given class of stock applies to all issued shares of that class (including treasury shares). The justification for this assumption is that the stockholders within a class share alike in the event of voluntary or involuntary liquidation. The purchase by a corporation of its own shares is a partial liquidation of the business. (1)

If the above stock were retired, it would be charged off as follows:

Capital Stock	$10,000.00	
Paid-in Surplus	1,052.17	
Earned Surplus	3,347.83	
Treasury Stock-cost		$14,400.00
Earned Surplus Restriction for Treasury Stock Purchased	14,400.00	
Earned Surplus		14,400.00

The above treatment of the resale and retirement of treasury stock is the same as that advocated by the

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(1) Kohler, Eric L., op. cit., Ch. 4, p. 6

American Accounting Association (1) in 1941 in "Accounting Principles Underlying Corporate Financial Statements":

> "...if the shares are not reissuable, or if they acquire the status of unissued or retired shares, such outlay should be charged to capital-stock account up to the amount by which capital stock has been formally reduced; the balance remaining should be charged to paid-in surplus, if any, up to an amount no in excess of the prorata portion of the paid-in surplus applicable to that number of shares; any part of the outlay which cannot be thus absorbed should be charged to earned surplus as constituting a distribution thereof. In case shares are retired at a figure less than their par or stated values, the resulting balance should be regarded as paid-in surplus. The excess of the reissue price of reacquired shares over their cost is paid-in capital; an excess of cost over the reissue price is in effect a distribution to a retiring stockholder and is chargeable to earned surplus."

Although Paton was a co-auther of "An Introduction to Corporate Accounting Standards", he does not appear to be in full accord with the treatment advocated. From the publication of "Some Phases of Capital Stock" (2) in 1919 to date, Paton has maintained that treasury shares are the same as "never-issued" shares and that the transaction in-

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(1) American Accounting Association, Accounting Principles Underlying Corporate Financial Statements, op. cit. p. 138

(2) Paton, W. A., "Some Phases of Captial Stock", op. cit. pp. 321-335

volving the "reissue" of reacquired shares should completely disregard the transaction involving the purchase of a corporation's own stock. In commenting upon the "Accounting Principles Underlying Corporate Financial Statements", Paton (1) states:

> "The last sentence of this statement is definitely objectionable,...it is defective in that it mixes the accounting for the acquisition of the shares with the accounting for reissue. If reacquired shares are essentially the same as never-issued shares it follows that the total amount paid in by the party or parties to whom such reacquired shares are issued should be treated as capital (or stated capital surplus)."

Paton's view is that the purchase by a corporation of its own shares results in the retirement of the shares so purchased. He assumes that treasury shares are a special class of unissued stock and when acquired an immediate analysis of the underlying effect of the transaction upon capital and surplus accounts should be made. As a compromise he would allow the use of a temporary suspense account and postpone the analysis until the end of the accounting period. At that time, however, capital stock and paid-in surplus would be charged with legal captial value of the stock. If the cost of acquisition was above

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(1) Paton, W. A., "Accounting Principles-Balance Sheet," Contemporary Accounting, op. cit. ch. 2, p. 23

legal capital, the difference would be charged to earned surplus. If the stock were later sold, the sale would be treated as if it were an original issue.(1) Kohler(2) agrees with Paton and states:

> "Accountants may...ultimately conclude that, despite its legal differentration from unissued or redeemed and cancelled shares, treasury stock had best be accounted for immediately upon its repurchase as though it has been retired; and that when resold, the proceeds be credited in full to paid-in capital accounts. The rule is simple; it keeps unrelated transactions separated; and it records newly paid-in capital as such."

The laws of many of the states allow the purchase of a corporation's own shares only out of surplus assets over liabilities and capital.(3) Even when the laws of the state do not specify that treasury stock be purchased only out of surplus, the courts, in many instances, have inforced this rule.(4) The courts, in general, have insisted that the interests of creditors cannot be prejudiced by a purchase of treasury stock.

(1) Paton, W. A., Advanced Accounting, The Macmillan Company, New York: 1941, pp. 546-552

(2) Kohler, Eric L., op. cit. ch. 4. p. 7

(3) See this thesis, p. 18

(4) See this thesis, p. 30

The law treats the payment of dividends in a similar manner. Sanders, Hatfield and Moore (1) state:

> "The principle which the statutes and decisions, seek to effectuate is that no dividend may be paid unless after such payment the amount or value of the property of the corporation will by at least equal to the aggregate of (a) its liabilities and (b) the stated amount of its capital, i.e., the amount required by law to be invested by the stockholders as a condition to doing business as a corporation with limited liability."

It is obvious that if a corporation exhausted all of its available surplus by the purchase of treasury stock it could not also pay dividends without impairing its capital. If the purchase of treasury stock is recorded in a suspense account and this amount is deducted from the amount of capital stock on the balance sheet, the diminution in surplus available for dividend payment does not become immediately evident. It has become customary under this treatment, therefore, to restrict earned surplus in an amount equal to the cost of the treasury shares. The amount available for further treasury stock purchases and for dividend payments is thus reflected on the balance sheet.

The treatment of treasury stock advocated by the American Accounting Association (2) requires that the re-

(1) Sanders, T. H., Hatfield, H. R. and Moore, U., op. cit. p. 45

(2) See this thesis, p. 47

striction of surplus be covered by notation. The restriction is not mandatory. Stempf (1) states that the restriction of surplus through a parenthetical earmarking

> "...is a clumsy contrivance intended to straddle the awkward dilemma created by the direct deduction of reacquired shares from capital stock. When such reacquired shares are deducted from the sum of capital stock and surplus the true suspense character of the item and its relationship to both capital stock and surplus is clearly disclosed, requiring no further earmarking."

Hatfield, Sanders and Burton state that one of the advantages of the suspense treatment is that the restriction of earned surplus becomes unnecessary. (2)

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(1) Stempf, Victor H., op. cit. p. 133

(2) Hatfield, H. R., Sanders, T. H. and Burton, N. L., op. cit. p. 256

Chapter IV

The Attitude of the American Institute of Accountants, The American Accounting Association and the Securities and Exchange Commission Toward the Accounting Treatment of Treasury Stock.

1. The American Institute of Accountants

The report of the Special Committee on Cooperation with Stock Exchanges of the American Institute of Accountants to the Committee on Stock List of the New York Stock Exchange, dated September 22, 1932, set forth as one of its objectives:

> "To make universal the acceptance by listed corporations of certain broad principles of accounting which have won fairly general acceptance." (1)

A brief list of accounting principles was formulated by the joint effort of the above committees included as item four if this list was the following statement:

> "While it is perhaps in some circumstances permissible to show stock of a corporation held in its own treasury as an asset, if adequately disclosed, the dividends on stock so held should not be treated as a credit to the income account of the company." (2)

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(1) May, George O., Financial Accounting, p. 72

(2) ibid. pp. 81-82

One of the results of the studies of the Special Committee on Cooperation with Stock Exchange and the Committee on Stock List of the New York Stock Exchange was the publication in 1936 by the Executive Committee of the American Institute of Accountants of a pamphlet entitled "Examination of Financial Statements by Independent Public Accountants". This was a revision of a bulletin prepared by the Institute in 1929 and published by the Federal Reserve Board under the title "Verification of Financial Statements".(1) The statements therein contained were intended to apply to examinations by independent public accountants of financial statements prepared for credit purposes or for annual reports to stockholders.(2)

Under the heading "Profit and Loss-Other Income" was a verbatim repetition of the statement relating to the treatment of dividends paid on treasury stock as it originally appeared in the brief list of accounting principles.

Under the heading "Capital Stock" there appeared the following statement:

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(1) American Institute of Accountants, Examination of Financial Statements by Independent Public Accountants, American Institute of Accountants, New York: 1936 Preface, p. v

(2) ibid, p. v

> "If any stock of the company is held in the treasury it should preferably be shown as a deduction from capital stock or from surplus or from the total of the two, at either par or cost, as the laws of the state of incorporation and other relevant circumstances require. If it is included on the asset side of the balance sheet the circumstances justifying such treatment should be indicated in the caption or in a footnote to the balance sheet." (1)

This statement was further amplified under the heading "Securities":

> "If acquired and held for specific purposes, however, such temporary holdings may be treated as assets, but they should be shown as a separate item and not under current assets." (2)

It appears, then, that any of the usual treatment of treasury stock was acceptable, and the only prescribed restriction was that treasury stock should not be shown among the current assets and the only qualifying restriction was that, if shown as an asset the circumstances justifying such treatment should be disclosed.

In 1938, the Executive Committee of the Institute published the "Statement of Accounting Principles", this statement was compiled by a special committee (3) appointed

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(1) ibid. pp. 28-29

(2) ibid. p. 17

(3) Henry Rand Hatfield, Underhill Moore, and Thomas Henry Sanders, Chairman

and sponsored by the Haskins and Sells Foundation.

Under the heading "Marketable Securities" appeared the following:

> "Reacquired shares of the company's own stock, securities issued by its subsidiaries and held for control, and securities held for the maintenance of business relations should not be included in the current asset section." (1)

Under the caption "Reacquired Stock" the statement draws a distinction between unissued stock, canceled stock and reacquired stock. Because of the differences in the legal requirements and regulations for the original issuance of capital stock and the freedom of disposing of reacquired stock it was held that there should be a separate statement of unissued stock and reacquired stock in the records and on the balance sheet. Unissued stock and reacquired stock should be kept distinct in all records from stock which, although once issued, had subsequently been canceled. (2)

The second section deals with the accounting treatment of reacquired stock.

> "Reacquired stock is, strictly speaking, not an asset, but may indicate an instrument which may be used for obtaining assets. Reacquired stock should preferable be shown as a deduction from capital stock issued. It is unwise to make a fixed rule, however,

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(1) Sanders, T. H., Hatfield, H. R. and Moore, U., op. cit. p. 72

(2) ibid. p. 89

> since some circumstances seem to require, or at least to justify, its treatment as an asset. Such cases should, nevertheless, be regarded as exceptional." (1)

The preferred treatment, then, was the deduction of reacquired shares from capital stock issued. The asset treatment was permitted in exceptional cases, although reacquired stock was not "strictly speaking" an asset.

Dividends on reacquired stock, it is again repeated, should not be reported as income of the company.(2) It is also stated that the phrase "The Purchase of Treasury Shares out of Surplus" is misleading. This phrase, it was held, conveys the idea that a corporation cannot purchase its own shares if such a purchase results in the reduction of net assets below the amount of stated capital. However, resent corporation acts have allowed such purchases for specific purposes.(3)

It was also stated that surplus arising from the sale of reacquired shares should in general, be regarded as capital surplus. When profits or losses, however, occur in small amounts, from buying or selling of stock, it is permissible to treat them as earned surplus.(4)

(1) ibid. p. 90

(2) ibid. p. 90

(3) ibid. p. 91

(4) ibid. p. 90

In September, 1939 the Executive Committee authorized for publication Accounting Research Bulletin No. 1. This was the first of a series of such bulletins prepared by the Institute's Committee on Accounting Procedure. The purport of these bulletins is expressed in the following quotation:

> "The committee recognizes that its general rules may be subject to exception and that in extraordinary cases truthful presentation and justice to all parties at interest may require exceptional treatment. But the burden of proof is upon the accountant clearly to bring out the exceptional procedure and the circumstances which render it necessary." (1)

Bulletin No. 1 was divided into two parts. The first dealt with rules formerly adopted by the membership of the Institute. The second part dealt with profits and losses on treasury stock and was a report of the committee on accounting procedure. The executive committee had directed its publication on April 8, 1938 for the information of the members of the Institute without approval or disapproval of the executive committee. (2) In the first part of the bulletin under "Rules Formerly Adopted" there again appeared the verbatim repetition of item four of the brief list of accounting principles formulated by the special committee

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(1) Committee on Accounting Procedure, American Institute of Accountants, Accounting Research Bulletin No. 1 American Institute of Accountants, New York, 1939, p. 3

(2) ibid. p. 7

on cooperation with stock exchanges to the effect that while it was perhaps permissible to show treasury stock as an asset, dividends on stock so held were not to be treated as income.(1)

The second portion of the bulletin presented the report of the special committee on cooperation with stock exchanges, since this report had been accepted by the committee on accounting procedure with the addition of a single qualifying statement.

This report stated that transactions in a corporation's own shares relate to the capital of the corporation and do not give rise to corporate profits and losses. The report continues:

> "Your committee can see no essential difference between (a) the purchase and retirement of a corporation's own common stock and the subsequent issue of common shares, and (b) the purchases and resale of its own common stock." (2)

The report of the special committee on cooperation with the stock exchanges had stated that where the transactions involved were so inconsequential as to be immaterial, they might be reflected in earned surplus. The committee on accounting procedure qualified this statement to the effect

(1) ibid. p. 6

(2) ibid. p. 7

that although the individual transaction might be inmaterial in amount, if it were part of a series of transactions which in the aggregate were material in amount, such transactions should not be reflected in earned surplus.(1)

Implicit in this report is the denial of the asset treatment. It would be difficult to argue that a corporation could hold it's own shares as an asset and at the same time contend that gains or losses could not be realized by trading in that asset. Throughout the pronouncements of the Institute on the matter of treasury stock, however, there has been no attempt to disclose its attitude toward the nature of treasury stock. It will be noted that, with the exception of the second part of Accounting Research Bulletin No. 1, the accounting treatments of treasury stock suggested have been based upon pragmatic rather than fundamental concepts. The nature of the transaction governs the treatment rather than the nature of the thing treated, and the nature of the transaction is subject to a pragmatic analysis. In the second section of Accounting Research Bulletin No. 1, the committee sought to establish a criteria based upon a fundamental concept of the nature of transactions in a corporation's own shares. It first implied that the transaction involved in the purchase and retire-

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(1) ibid. p. 8

ment of a corporation's own shares was unrelated to the transaction involved in the issue of common shares. It then stated that the transactions involved in (1) the purchase of and (2) the resale by the corporation of its own common stock were also distinct transactions. If this principle is admitted, a pragmatic analysis of the transaction is impossible. This committee report, however, received nether the approval or the disapproval of the executive committee of the Institute. Watson (1) commented upon this lack of approval or disapproval. He suggested that it raised a very interesting question of procedure to be considered by the entire membership of the American Institute of Accountants. It appears, however, that this question has not as yet been considered by that membership.

2. The American Accounting Association

In 1936, the executive committee of the American Accounting Association published "A Tentative Statement of Accounting Principles Affecting Corporate Reports". This was a brief statement of principles suggested by the Association's committee on accounting procedure. "Proposition D 7" (2) of this statement dealt with the Accounting treat-

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(1) Watson, Albert J., op. cit. p. 32

(2) American Accounting Association, "A Tentative Statement of Accounting Principles Affecting Corporate Reports." Accounting Review, vol. XI, June, 1936, p. 190

ment of treasury stock. "Proposition D 7" was further explained in a monograph by W. A. Paton and A. C. Littleton entitled "An Introduction to Corporate Accounting Standards". The publication of this monograph was sponsored by the executive committee of the Association in 1940. The views expressed, however, were those of the authors and not necessarily those of the executive committee. The argument which supports "Proposition D 7" as expressed by Paton and Littleton dealt with the nature of treasury stock and attempted to establish criteria, in terms of fundamental concepts, to govern the accounting treatment of transactions involved in a corporation's dealing in its own shares. The details of the accounting treatment advocated by Paton and Littleton have been presented in Chapter III of this thesis.(1)

The first concept emphasized was that a clear distinction be drawn between capital contributed to the corporation and capital accumulated in the form of earned surplus as a result of the utilization of resources. This would require the exclusion of gains arising from transactions in the corporation's own shares subsequent to the date of issue.(2)

(1) See this thesis pp. 51-55

(2) Paton, W. A., and Littleton, A. C., op. cit. p. 115

The second concept mentioned is that the payment made to the stockholder for the surrender of his shares is in effect a return of his capital upon his retirement from the enterprise. Closely related to this concept is the notion that a payment to the shareholder for the surrender of his shares in excess of the paid-in capital is in the nature of a special dividend paid to him upon his retirement from the enterprise. (1)

The third concept is that reacquired shares are in the nature of capital and are, therefore, not an asset of the enterprise. Since they are capital their market valuation reflects the valuation of the enterprise as a whole.

> "If the price paid per share is less than total book value at date of acquisition it may be assumed that the market valuation of the enterprise as a whole, on a strict cash basis, is less than the recorded amount of money funds, receivables, and unexpired cost factors,... Similarly, if the price paid exceeds the total book value, this means that the immediate market valuation includes either appreciation of recorded assets or unrecorded intangible resources, or both, and not that the accounting of the corporation, assuming strict adherence to the cost standard, has been faulty." (2)

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(1) ibid. p. 115

(2) ibid. p. 116

The fourth concept is that treasury stock is transitional in nature. It is ultimately to be disposed of through retirement or resale.

> "But, since ultimate disposition of the shares may be uncertain, provision must be made for temporary treatment in the accounts and for a clear record in the statements of the disposition finally chosen." (1)

In 1941, the executive committee of the Association approved for publication a report of its committee on accounting procedure entitled "Accounting Principles Underlying Corporate Financial Statements". This report accepted the opinions of Paton and Littleton and reaffirmed the position taken on the proper accounting treatment of treasury stock advocated by the Assocation in 1936. This treatment, however, was now supported by the arguments developed by Paton and Littleton.(2)

3. The Securities and Exchange Commission

The attitude of the Securities and Exchange Commission toward the accounting treatment of treasury stock is reflected in the regulations S-X for form and content of financial statements and through the accounting releases pertinent to treasury stock.

(1) ibid. p. 115

(2) See this thesis pp. 51-55

The Securities and Exchange Commission derives its authority from the Securities Act of 1933, and the Securities and Exchange Act of 1934. The Public Utility Holding Company Act of 1935 and the Investment Company Act of 1940. The Securities Act of 1934 is designed to, among other things, compel disclosure of pertinent information concerning securities publicly offered and sold in interstate commerce or through the mails. The Securities and Exchange Act of 1935 complements the act of 1933 by requiring comparable disclosure by companies whose securities are listed and registered on a national securities exchange. Companies subject to these requirements file with the Commission reasonable adequate information, including certified financial statements, for the purpose of keeping investors adequately informed as to the affairs of the issuer.(1) The Public Utilities Holding Company Act of 1935 gives to the Commission definite and extensive powers with respect to public utility holding companies and their subsidiaries. The Investment Company Act of 1940 which the Commission administers, serves a dual purpose. It is in part a regulatory statute intended to overcome certain abuses which were found to be present among investment companies, but it is,

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(1) Greidinger, B. Bernard, op. cit. pp. 3-25

in addition, a disclosure statute requiring such companies to file with the commission periodic financial statements.(1)

These statutes, while granting broad authority on accounting matters, leave the presenting of detailed accounting requirements a matter for administrative action on the part of the Commission. Pursuant to this authority, the Commission in 1940 promulgated Regulation S-X which governs the form and content of most financial statements filed with the Commission under the Act of 1933, the Act of 1934 and the 1940 Act. Prior to the issuance of this regulation the accounting requirements to be observed by registrants were set forth in the particular form filed (i.e. form 10K for reports to stockholders, etc.) As time went on, and new forms were promulgated, many differences arose between the accounting requirements of the various forms. Regulations S-X integrated these different requirements into a single regulation.(2)

The Commission has authorized the issuance of releases in an Accounting Series as a means of informing the public of its administrative policies in accounting matters. Fifty-two such releases were issued to and including June

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(1) Werntz, William W. and Rickard, Edmond B., "Requirements of the Securities and Exchange Commission," Contemporary Accounting, op. cit., Chapter 38, p. 1

(2) ibid. p. 2

15, 1945.(1)

Prior to the publication of regulation S-X, the instruction for form 10 recognized the display of treasury stock under the heading of "Other Security Investments" as follows:

> "If reacquired stock is carried as an asset, give the reasons therefor and state the number of shares and the amount at which carried." (2)

Regulations S-X, as amended to and including June 20, 1940, excluded the presentation of treasury stock as an asset. Rule 3-16 stated:

> "Reacquired shares, is significiant in amount, shall be shown separately as a deduction from capital shares, or from total of capital shares and surplus, or from surplus, at either par, stated value, or cost, as circumstances require."

This rule has not been amended and appears in the Regulations S-X as amended to and including April, 1946.(3)

Accounting Series Release No. 5, May 10, 1938 deals with the treatment of dividends on a corporation's own capital stock held in sinking fund. The release states:

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(1) Securities and Exchange Commission, Accounting Series Releases (Releases 1-52 inclusive, June 15, 1945) United States Government Printing Office, Washington: 1945

(2) Greidinger, B. Bernard, op. cit., p. 167

(3) Securities and Exchange Commission, Regulations S-X, op. cit., p. 7

> "You have asked whether it is proper for a corporation to treat as income dividends applicable to shares of its own stock held in sinking fund.
>
> "In my (Carmen G. Blough) opinion dividends on a corporation's own stock held in treasury or in sinking fund or other special funds should not be included in income. The treatment of such dividends as income results in an inflated showing of earnings inasmuch as the earnings from which dividends are paid have already been included in income or surplus either during the current or prior accounting periods." (1)

Accounting Series Release No. 6 deals with the excess proceeds from the sale of treasury stock over the cost thereof. The question involved an item of $488,211.83 representing excess of proceeds over cost from the sale of 12,200 shares of a company's own stock reacquired by it prior to 1934 for the purpose of resale when market conditions improved. The opinion states:

> "Under the laws of most states there are certain legal restraints upon issuance of new shares that do not apply to the sale of treasury shares. However, from an accounting standpoint, there appears to be no significant difference in the final effect upon the company between (1) the reacquisition and resale of the company's own common stock and (2) the reacquisition and retirement of such stock together with the subsequent issuance of

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(1) Securities and Exchange Commission, Accounting Series Releases, op. cit., p. 4

stock of the same class."

> "It is recognized that when capital stock is reacquired and retired any surplus arising therefrom is capital and should be accounted for as such and that the full proceeds of any subsequent issue should also be treated as capital. Transactions of this nature do not result in corporate profits or in earned surplus. There would seem to be no logical reason why surplus arising from the reacquisition of the company's capital stock and its subsequent resale should not also be treated as capital." (1)

The Securities and Exchange Commission disavows the asset treatment of treasury stock. The deduction of treasury shares from capitals advocated in the Institute's "Statement of Accounting Principles" is an acceptable treatment. The suspense treatment advocated by the Association is also acceptable, as well as the direct deduction from earned surplus.

The Commission agrees with the Institute's committee on Accounting Procedure that the transaction involved in the reissue of treasury stock is not related to the antecedent transaction involved in its reacquisition. This point was made by Paton in 1919. (2) It, therefore, holds that transactions in a corporation's own shares cannot result in corporate profits or in earned surplus.

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(1) ibid. p. 5

(2) See this thesis p. 32

Chapter V

Treasury Stock as Source of Taxable Income

1. The Change in Regulations (1934)

A variety of accounting treatments may reflect disagreement within the accounting profession, but would not have attracted inordinate interest if the practical considerations arising out of the fact had not centered attention upon it. During the early thirties corporations bought their own capital stock on a large scale and were often able to resell at much higher prices as recovery from the depression proceeded. If a corporation had purchased its stock at a price less than its par value and the market price went down, the stock could be retired and a credit to capital surplus would be created. If the view were taken that when the market went up and the stock was sold a profit was realized, the directors were placed in this position:

> "They could make a purchase that was, perhaps, open to objection on broad grounds, with assurance that whichever way the market might go the corporation would not be faced with a loss but could look forward to either a credit to earned surplus or a credit to capital surplus." (1)

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(1) May, George O., "Long Term Liabilities and Capital Stock", Contemporary Accounting, op. cit. ch. 9, p. 9

This possibility clearly made such transactions different in character from trading in other securities or in commodities.

Until 1934, the Internal Revenue Bureau ruled that "a corporation realizes no gain or loss from the purchase or sale of its own stock"(1). In that year the regulations were changed to recognize taxable gains and losses under some circumstances. The present Regulations,(2) contain the following ruling:

> "Whether the acquisition or disposition by a corporation of shares of its own capital stock gives rise to taxable gain or deductible loss depends upon the real nature of the transaction, which is to be ascertained from all its facts and circumstances. The receipt by a corporation of the subscription price of shares of its capital stock upon their original issuance gives rise to neither taxable gain nor deductible loss, whether the subscription price be in excess of, or less than, the par or stated value of such stock.
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> "But if a corporation deals in its own shares as it might in the shares of another corporation, the resulting gain or loss is to be computed in the same manner as though the corporation were dealing in the shares of another."

The dealings by corporations in their own shares

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(1) Internal Revenue Bureau Regulations: 45, 62, 65, 69, 74 and 77

(2) Regulation III, Sec. 29. 22 (a) (15)

during the early thirties had, perhaps, forced the change in regulations. Watson (1) felt that the motives of management in reacquiring capital stock and holding it for resale were at fault.

> "Has this practice not been abused often to the detriment of minority stockholders?"

Paton (2) feels that the lack of agreement among accountants upon the nature of treasury stock led directly to the changed regulations.

> "Had the position of accountants been clear-cut and well established on this point it is doubted if this theory (taxable income can emerge in connection with a company's transactions in its own shares) would ever have been seriously entertained by any responsible person."

Accountants of prominence, however, approved the decision of the Internal Revenue Bureau as being in accord with accounting principles. Montgomery (3) countered the argument that an association cannot derive an income from transactions with its own member, by stating that profits from trading were income whatever might be the subject of the traders.

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(1) Watson, Albert J., op. cit., p. 35

(2) Paton, W. A., Accounting Principles-Balance Sheet, op. cit., Ch. 2, p. 22

(3) Montgomery, Robert H., "Dealings in Treasury Stock", Journal of Accounting, Vol. LXV, June, 1938, p. 446

The suggested analogy between the reacquisition and reissuance of a corporations own shares and the purchase and sale of properties and commodities is fallacious. A transaction in a corporation's own shares involves a termination or a creation of stockholder-rights, features that are entirely lacking in the other types of transactions. (1)

2. The "as if" Theory of Bureau of Internal Revenue

Following the decision in Commissioner v. S.A. Woods Machine Company, wherein the Court had concluded that taxable gain or loss depends upon the real nature of the transaction involved, the Regulations were altered and taxable income was recognized as resulting from transactions in a corporation's own shares.

The altered regulation was sustained by the court in the case of the First Chrold Corporation v. the Commissioner:

> "In theory, a corporation cannot own a share of itself. When it purchases shares in itself it thereby reduces capital. When it reissues the stock it increases its capital. The trans-

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(1) May, George O., "Recent Opinions on Dealings in Treasury Stock", Journal of Accountancy, Vol. LXVI, July, 1938, pp. 17-19

> action is a capital transaction. In fact, corporations do buy and sell their own corporate shares as they buy and sell other forms of property, ignoring...the fact that the shares are their own. These are "as if" transactions...The capital of the corporation is not affected and the transactions are not capital transactions ...The real question thus becomes one of what the transaction, in truth, was." (1)

The attempt of the Treasury Department to make amendments to the Regulations retroactive to years prior to the dates of its promulgation, was rejected by the Supreme Court in Helvering v. R. J. Reynolds Tobacco Co., 306 U. S. 110 (1939).(2)

Notwithstanding the requirement of a corporation's articles that it repurchase its own shares, the Board of Tax Appeals concluded that if the stock was purchased for resale and a gain resulted, the transaction was taxable.(3)

The Treasury Department has ruled, pursuant to the amended Regulations, that a transfer of securities by a corporation to a pension trust for the benefit of the employers, where the par market value of the securities was

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(1) 97 FED. 2nd, 22 quoted in Accountants Handbook, op. cit., p. 1007

(2) Melvain, Charles, "Changes in Determination of Taxable Gross Income", Contemporary Accounting, op. cit. ch. 25 p. 11

(3) Equity Fund, Inc. B.T.A. Memo decision, 1942

in excess of the cost to the corporation, resulted in taxable income.(1)

Where the purchase and sale of stock were, however, determined to represent a readjustment of capital no taxable gain resulted.(2)

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(1) IT 3357 CB 1940-1, p. 11

(2) Dr. Pepper Bottling Company v. Commissioner, ITC 80

Chapter VI

A Study of the Published Financial Statements of 391 Selected Industrial Corporations for the Years 1939 Through 1945

It appears that accounting authority is divided on the matter of the accounting treatment of treasury stock. The American Institute of Accountants has expressed its attitude toward the proper accounting treatment of treasury stock in Examination of Financial Statements, A Statement of Accounting Principles and Accounting Research Bulletin No. 1., part one. In all of the above publications the asset treatment of treasury stock is permitted. The American Accounting Association expressed its attitude toward the proper accounting of treasury stock in A Tentative Statement of Accounting Principles Affecting Corporate Reports and in Accounting Principles Underlying Corporate Financial Statements. In both of these publications the American Accounting Association disavows the asset treatment of treasury stock.

In support of its view permitting the asset treatment the American Institute of Accountants considers the nature of the transaction as the determining factor. This is made apparent by such phrases as "While it is perhaps in some circumstances permissible..."(1) and "...some

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(1) American Institute of Accountants, Accounting Research Bulletin No. 1, p. 6

circumstances seem to require, or at least to justify..."(1) It is clearly indicated that an analysis of the transaction will determine the accounting treatment.

The American Accounting Association, on the other hand, considers the nature of the treasury stock, per se, as the determining factor. This is definitely stated by Paton and Littleton. "The treatment of reacquired shares should be consistent with their nature as capital."(2)

The Securities and Exchange Commission considers treasury stock to be in the nature of capital but explains its position in terms of the transaction involved:

> "...there appears to be no significant difference in the final effect upon the company between (1) the reacquisition and resale of the company's own stock and (2) the reacquisition and retirement of such stock together with the subsequent issuance of the stock of the same class...(and) any surplus arising therefrom is capital..." (3)

The above statement emphasizes the conflict, which in reality is a broad conflict between fundamental premises. Paton,(4) in effect, points to this conflict when he states

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(1) Sanders, T. H., Hatfield, H. R. and Moore, U., op. cit. p. 90

(2) Paton, W. A. and Littleton, A. C., op. cit. p. 115

(3) Securities and Exchange Commission, Accounting Release No. 6, p. 5

(4) Paton, W. A., Accounting Principles-Balance Sheet, op. cit., Ch. 2, p. 22

> "When shares are issued the entire amount paid in by the new stockholders is capital;...it makes no difference if such shares were previously issued and later reacquired. When shares are acquired the amount disbursed by the corporation represents the withdrawal by the retiring stockholder of his shares of the corporation's assets; ...it makes no difference whether the shares so acquired are canceled or not."

The Internal Revenue Bureau specifically states that the recognition of gains or losses arising from transactions in treasury stock hinges upon an analysis of the transaction. The conflict is clearly disclosed in the Court's decision in the case of the First Chrold Corporation v. the Commissioner (1) in which the Court states that treasury stock was in the nature of capital, but then proceeded to establish a rule to be applied for analysing transactions for the determination of recognizable gains or losses on such transactions.

If treasury stock is deducted from capital stock or from surplus or from the total of capital stock and surplus, it is considered to be in the nature of capital. Under these circumstances, the conflict hinges upon the concept of the nature of the capital against which the treasury stock may be applied. If treasury stock is deducted from capital stock and the balance sheet reflects the outstanding stock, the amount of stated capital is not

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(1) See this thesis, p. 81

disclosed. The direct deduction of treasury stock from surplus lends the inference that the treasury stock is properly a part of the stated capital of the corporation, and a return of the stockholder's investment paid to him out of the capital accumulated as a result of the utilization of the corporation's resources, and that the treasury stock is committed to this status indefinitely. The deduction of treasury stock from the total of capital stock and surplus considers the stock as a part of stated capital, but also emphasizes its transitional nature. It may be applied against stated capital if retired, or it may affect earned surplus or capital surplus, or both, if it is resold.

Since the accounting authorities are divided upon concepts as basic as those stated above, the determination of the extent to which the publications of these authorities have influenced the profession becomes a matter of importance. A study of the published balance sheets of 391 selected industrial corporation for the years 1939 through 1945 has, therefore, been made in order to determine (1) the treatment of treasury stock in each particular year (2) any changes in the treatment of treasury stock and the year of such change (3) relation of the year of change, if any, to the year of publication of the statements of the accounting authorities, and (4) the extent to

which the profession is bound by accounting authority.

The selection of a sample of corporations whose balance sheets would be representative of the corporate population presented several problems. It was felt that a random sample selected upon some consistant arbitrary basis would suffice, if the data indicated by such arbitrary selection were available. Several large files of annual reports of corporations extending back a number of years were available and for the most part represented corporations listed upon the New York Stock Exchange. The listing of the corporations whose securities were traded on the New York Stock Exchange on November 9, 1946 as published in the New York Times was, therefore, used as a basis of selection. A trial examination of a number of annual reports disclosed the fact that approximately forty per cent of the corporations disclosed treasury stock. It would, therefore, be necessary to have a sample large enough to secure a representative picture of corporations presenting this item. It was felt that a sample which produced one hundred such corporations would be adequate. It was also felt that a greater degree of comparability would be secured if the sample were limited to industrial corporations. By taking, then, every third industrial corporation listed as having traded securities on the New York Stock Exchange on November 9, 1946, a sample of 243 corporations

was secured, which was deemed inadequate. In order to avoid any possible bias in sample selection, the sample was increased by taking every third industrial corporation from the list of corporations whose securities were not traded on November 9, 1946. This yielded an additional 148 corporations or a total of 391 which was deemed adequate.

Since the "Statement of Accounting Principles" made its appearance in 1938, and its influence could not have been reflected until 1939, this year was selected as the first year of the sample, and the data were continued through 1945, the last year then available. The selection of a seven year period made the total number of statements to be examined amount to two thousand thirty seven. Since a number of corporations presented comparative statements this number was materially reduced. In addition, a total of five hundred sixty two statements were not available and these missing years were supplied from Moody's Manual of Investments for years required.

The four treatments of treasury stock, i.e. as an asset, as a deduction from capital stock, as a deduction from surplus and as a deduction from the total of capital stock and surplus were set off by years on data sheets. As the statements were examined, if treasury stock was presented, the data sheet was checked in the appropriate column. The state of incorporation was also noted for each corpora-

tion. This information was seldom available in the annual report but was readily secured from the alphabetical index of corporations in Moody's Manual of Investments. The name of the certifying accounting firm was also noted, as well as whether the stock was par value or no par value. The findings of the study are presented in the following tables.

TABLE I

ACCOUNTING TREATMENT OF TREASURY STOCK AS REFLECTED BY THE PUBLISHED BALANCE SHEETS OF 391 SELECTED INDUSTRIAL CORPORATIONS FOR THE YEARS 1939 THROUGH 1945

	Number of Corporations							
Treatment	1939	1940	1941	1942	1943	1944	1945	Total
As an asset	33	23	20	19	16	18	15	144
Deduction from capital stock	66	64	62	61	61	62	60	406
Deduction from surplus	4	5	5	5	5	5	5	34
Deduction from the total of capital stock and surplus (suspense treatment)	35	48	51	56	56	75	70	391
Total	138	140	138	141	138	160	150	1005
Not Presenting Treasury stock	253	251	253	250	253	231	241	1732
Total	391	391	391	391	391	391	391	2737

Source: Of the total of 2737 Balance sheets reported, 2175 represent annual reports examined; 562 were secured from Moody's Manual of Investments, 1939-1945

TABLE II

ACCOUNTING TREATMENT OF TREASURY STOCK AS REFLECTED BY THE PUBLISHED BALANCE SHEETS OF 391 SELECTED INDUSTRIAL CORPORATIONS FOR THE YEARS 1939 THROUGH 1945

	Percent of total of Corporations Presenting Treasury Stock						
Treatment	1939	1940	1941	1942	1943	1944	1945
As an asset	24	16	14	13	12	11	10
Deduction from Capital Stock	48	46	45	43	44	39	40
Deduction from Surplus	3	4	4	4	4	3	3
Deduction from Capital Stock and Surplus (suspense treatment)	25	34	37	40	40	47	47
Total	100	100	100	100	100	100	100

Source: Of the total of 2737 balance sheets reported 2175 represent annual reports examined; 562 were secured from Moody's Manual of Investments, 1939-1945

Chapter VII

Analysis and Interpretation of the Data Disclosed by the Study

The decrease in the use of the asset treatment of treasury stock is clearly shown in Table I, p. 91. Thirty three corporations displayed treasury stock as an asset in 1939, while only fifteen utilized this treatment in 1945, a range of variation of eighteen corporations. The decrease of ten corporations occuring between 1939 and 1940, is the largest decrease in any single year. Table II, p. 92 presents the data contained in Table I, p. 91 in terms of the per cent that the number of corporations treating treasury stock as an asset in each particular year bears to the total number of corporations for the corresponding particular year. In 1939, 24 per cent of the corporations that disclosed treasury stock in that year presented such stock as an asset, while in 1945, similarly, only 10 per cent of the corporations used this method of presentation. In 1940, 16 per cent, (8 per cent fewer than in 1939) of the corporations presenting treasury stock in that year, showed this item as an asset. In Table III, p. 94 are presented the data shown in Table II, p. 92 in terms of percentage relatives of the base year 1939. By 1945 the asset treatment of treasury stock had decreased to 41.8 per cent

TABLE III

CHANGES IN ACCOUNTING TREATMENT OF TREASURY STOCK AS REFLECTED BY THE PUBLISHED BALANCE SHEETS OF 391 SELECTED INDUSTRIAL CORPORATIONS FOR THE YEARS 1939 THROUGH 1945

	Percentage Relatives (Base year: 1939)						
Treatment	1939	1940	1941	1942	1943	1944	1945
As an asset	100	66.7	58.3	54.2	50.0	45.8	41.8
Deduction from Capital stock	100	95.8	93.7	89.6	91.6	81.3	82.9
Deduction from surplus	100	133.3	133.3	133.3	133.3	100.0	100.0
Deduction from the total of capital stock and surplus (suspense treatment)	100	136.0	148	160	160	188	188

Source: Based upon Table II, p. 92

of its 1939 use. That is, the percentage of corporations using this method of displaying treasury stock in 1945 was 41.8 per cent of those who used this method of treatment in 1939. During the year period from 1939 to 1940 the asset treatment decreased to 66.7 per cent of its 1939 level. It is, therefore, apparent that the asset treatment decreased appreciable during the seven years considered by the study and the most significant decrease occurred during the year of 1940.

The treatment of treasury stock as a deduction from capital stock on corporate balance sheets also decreased during the period. Table I, p. 91 shows that sixty-six corporations used this treatment in 1939, as compared with sixty in 1945. Allowing for the change in the number of corporations reporting treasury stock in the respective years, Table II, p. 92 shows that 48 per cent of the corporations reporting treasury stock in 1939 elected this method of treatment, while, similarly 40 per cent used this method of treatment in 1945. Table III, p. 94 shows that this method of disclosing treasury stock had decreased to 82.9 per cent of its 1939 level of use. It appears, then, that this method of presenting treasury stock on corporate balance sheets is decreasing, but the magnitude of decrease is not great enough to be particularly significant. Table III, p. 94 also disclosed that the rate of decrease in the use of this method is relatively uniform throughout the period studied.

There is no significant change in the treatment of treasury stock as a deduction from surplus. Table I, p. 91 shows increase from four corporations in 1939 to five corporations in 1940 and that number is maintained through 1945. Because the magnitude of this item is small in relation to the total, a large percentage increase is shown on Table III, p. 94. This percentage increase results from a variation in a single corporation and cannot be considered as significant.

The treatment of treasury stock as a deduction from the total of capital stock and surplus increased significantly during the period studied. Table I, p. 91 shows that thirty-five corporations reported treasury stock by means of this method in 1939, as compared with seventy corporations so reporting in 1945. Table II, p. 92 shows that twenty-five per cent of the balance sheets in which treasury stock appeared in 1939, the suspense treatment was used, while similarly, forty-seven per cent of the corporations used this treatment in 1945. During the year of 1940, the per cent of corporations electing this treatment increased from 25 per cent in 1939 to 34 per cent in 1940 (a difference of 9 per cent). Table III, p. 94 shows that in 1940 the use of this treatment increased to 136 per cent of its 1939 level of use, and by 1945 the use of this method was 188 per cent greater than in 1939. It is, therefore, apparent that the use of the suspense treatment increased appreci-

TABLE IV

CORPORATIONS CHANGING FROM THE ASSET TREATMENT TO THE SUSPENSE TREATMENT DURING THE YEARS 1940 THROUGH 1945

	Year of Change					
Corporation	1940	1941	1942	1943	1944	1945
Air Reduction Co., Inc.	X					
American Supply Co.	X					
Atlas Powder Co.						X
Briggs and Stratton Corp.		X				
Butler Bros., Inc.	X					
Canada Dry Ginger Ale Co.			X			
Corn Products Refining Co.	X					
Du Pont (E.I.) de Nemours & Co.				X		
Hercules Powder Co.	X					
Jewel Tea Co.	X					
Republic Steel Corp.	X					
Socony Vaccuum Oil Co.	X					
United States Steel Corp.				X		
Wesson Oil and Snowdrift Co.	X					
Wm. Wrigley, Jr., Co.	X					
Total	10	1	1	2	0	1

Source: Annual Reports to Stockholders

TABLE V

CORPORATIONS CHANGING FROM ASSET TREATMENT TO DEDUCTION FROM CAPITAL STOCK DURING THE YEARS 1939 THROUGH 1945

Corporation	Year of Change					
	1940	1941	1942	1943	1944	1945
Alpha Portland Cement Co.				X		
American Bank Note Co.					X	
Borg Warner Corp.		X				
Cudahy Packing Co.						X
Total	0	1	0	1	1	1

Source: Annual Reports to Stockholders

ably during the seven years considered by the study and the most significant increase occurred during the year of 1940.

It was observed that during the period studied fifteen corporations discontinued the use of the asset treatment and adopted the suspense treatment. The year of change in treatment is shown on Table IV, p. 97. Ten corporations changed from the asset treatment to the suspense treatment in 1940, while in the remaining years only five such changes were noted and not more than two in a single year. During the same period only four corporations abandoned the asset treatment to deduct treasury stock from capital stock. These data are presented in Table V, p. 98. It is observed that none of the corporations changed from the asset treatment to the method of deducting treasury stock from capital stock in 1940.

It is apparent, then, that the largest decrease in the use of the asset treatment and the largest increase in the use of the suspense treatment occurred during the year of 1940. During that year the Securities and Exchange Commission introduced Regulations S-X. The new regulations excluded the asset treatment formerly permitted in the instructions for form 10.(1) If treasury stock was signifi-

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(1) See this thesis, p. 36

cant in amount, it could not be held as an asset, but must be presented either as a deduction from capital shares, or from the total of capital shares and surplus, or from surplus. The decrease in the use of the asset treatment during the year of 1940 is, therefore, attributed to the introduction by the Securities and Exchange Commission of Regulation S-X.

The reason for the adoption of the suspense treatment is not so clear. The suspense treatment had been advocated by the American Accounting Association in its brief statement of principles entitled "A Tentative Statement of Accounting Principles Affecting Corporate Reports" in 1936. In the same year the American Institute of Accountants had stated that the suspense treatment among others was permissible in "Examination of Financial Statements", but none of the treatments mentioned is advocated. In 1940, the monograph by Paton and Littleton appeared. This, however, was a monograph expressing the viewpoint of the authors. It explained in detail the accounting treatment of treasury stock advocated by the Association in the brief statement published in 1936. Although it was sponsored by the American Accounting Association it did not necessarily express the views of the executive committee. The membership of the American Accounting Association is drawn primarily from academic sources, while most of the practicing accountants are members of the American In-

stitute of Accountants. It would, therefore, appear that the pronouncements of the Institute would have a greater affect on accounting practice than those of the Association. Still, the American Accounting Association had advocated the suspense treatment of treasury stock in 1936 and in 1938 the Institute in the "Statement of Accounting Principles" had advocated the deduction of treasury stock from capital stock on the balance sheet and in no subsequent pronouncement had mentioned the suspense treatment.

Accounting is an art, not a science. Accounting principles are more in the nature of practical working rules than of immutable natural or moral laws. Accounting is an art of practical utility. May (1) states his attitude upon this matter as follows:

> "It became clear to me that general acceptance of the fact that accounting was utilitarian and based on conventions (some of which were of doubtful correspondence with fact) was an indispensable preliminary to real progress...
>
> "Many accountants were reluctant to admit that accounting was based on nothing of a higher order of sanctity than conventions. However, it is apparent that this is necessarily true of accounting as it is, for instance of business law. In these fields there are no principles, in the more fundamental sense of the

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(1) May, George O., Financial Accounting, pp. 2-3

> word, on which we can build...
> The rules of accounting, even more than those of law, are the product of experience rather than of logic."

In Accounting Research Bulletin No. 1 the committee on accounting procedure of the American Institute of Accountants expressed the belief that "broadly speaking (accounting) will serve a useful social purpose"(1). The report of the committee on terminology of the American Institute of Accountants stated in Accounting Research Bulletin No. 7:(2)

> "An accounting principle is not a principle in the sense that it admits of no variation, nor in the sense that it cannot conflict with other principles. The analogy of law suggests itself; they frequently conflict with each other, and in many cases the question is which of several partially relevant principles has determining applicability."

It is believed, therefore, that the corporations changed from the asset presentation of treasury stock to an alternative treatment because the change in Regulations of the Securities and Exchange Commission had the force of law. In selecting an alternative treatment, however, it is believed, that the profession followed a utilitarian course and were in no sense bound by the statements of the

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(1) American Institute of Accountants, Accounting Research Bulletin No. 1. p. 1

(2) Committee on Accounting Terminology, Accounting Research Bulletin No. 7. pp. 60-61

American Institute of Accountants or the American Accounting Association.

If the treatment advocated by the American Accounting Association were followed, upon the retirement or resale of treasury shares, paid-in surplus or earned surplus or both would be affected.(1) The data of this study discloses that a total of ten corporations used the suspense treatment of presenting treasury stock in certain years and in a subsequent year reported no treasury stock, thus indicating its retirement or resale. Five of these corporations presented a single surplus account, three presented earned surplus and capital surplus and only two presented a paid-in surplus account. In 1941, "Accounting Principles Underlying Corporate Financial Statements" was published by the American Accounting Association. Table IV, p. 97 discloses that only one corporation changed from the asset treatment to the suspense treatment in that year. One corporation, the Julius Kayser Co., changed from the presentation of treasury stock as a deduction from capital stock to the suspense treatment in 1941. It is also significant that none of the ten corporations that changed from asset treatment in 1940 elected to use the treatment preferred in the "Statement of Accounting Principles" by the American Institute of Accountants.

(1) See this thesis, pp. 50-57

It appears, therefore, that in the matter of the accounting treatment of treasury stock, the changes have been initiated by the practicing accountants in the profession rather than by either the American Institute of Accountants or the American Accounting Association. The adoption of Regulations S-X by the Securities and Exchange Commission necessarily affected the accounting treatment of treasury stock. The advocacy of a treatment or the expression of a preference for a treatment by the other accounting authorities, however, appears to have had little affect upon the profession in the matter of accounting for treasury stock.

Chapter VIII

Summary and Conclusions

> "There is, it is believed, a corpus of accounting principles which are generally accepted. It is true that they are not "written law"; they have not been codified; they must be sought in accounts and financial statements, in treaties and other evidence of professional opinion. ...So fully is the existence of a body of accepted accounting principles recognized that accountants commonly state in their reports and certificates that the statements presented have been prepared in accordance with 'accepted principles of accounting'." (1)

An attempt to codify accounting principles was made by the American Accounting Association in 1936 in the "Tentative Statement of Accounting Principles Affecting Corporate Reports". This was followed in 1938 by the publication of the "Statement of Accounting Principles" by the American Institute of Accountants. These attempts to restate accounting principles gained a new significance in 1939 when the Securities and Exchange Commission required the inclusion of the term "generally accepted accounting principles" in accountants certificates prepared for registrants of the Commission. The Commission then defined "generally

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(1) Sanders, T. H., Hatfield, H. R. and Moore, U. op. cit. p. 5

accepted accounting principles" as being those prescribed by authoratative bodies such as "the various accounting societies and governmental bodies having jurisdiction".(1) The American Institute of Accountants published in 1939 the first of a series of accounting bulletins in which are included the reports of its committees on accounting procedure and accounting terminology. The purport of these bulletins was expressed in the statement that while accounting treatments other than those advocated might be acceptable, the burden of proof of the circumstances necessitating the departure was clearly upon the accountant.

The proper accounting treatment of treasury stock is a matter upon which the authorities do not agree. It has been the purpose of this thesis, therefore, to analyse the nature of the disagreement and the areas of disagreement; and through a study of the published balance sheets of 391 industrial corporations for the years 1939 through 1945 to determine (1) the treatment of treasury stock in each particular year (2) any changes in treatment of treasury stock and the year of such change (3) the relation of the year of change, if any, to the year of publication of the statements of the accounting authorities and (4) the extent to which the profession is bound by accounting authority.

(1) See this thesis p. 8

A tendency is manifest, throughout this study, for the development, from time to time, of a trend in the use of particular accounting treatment of treasury stock on the part of the accounting profession. The increasing use of a particular accounting treatment, however, has not been sufficiently persistant to eliminate the use of other treatments or to relegate them to a position of non-importance.

It is observed that the use of the asset treatment of treasury stock decreased from 61 per cent (1) in 1930 to 24 per cent (2) in 1939, the year prior to the introduction of regulations S-X of the Securities and Exchange Commission. The concept of accounting authority, referred to above, did not exist during this period and the trend away from the asset treatment must be considered to have eminated from the profession as a whole.

Paramount in authority during this period was the necessity to conform to the laws of the state of incorporation. In Chapter II of this thesis the laws of the several states in relation to treasury stock are analysed. From that analysis it is concluded that the "trust fund" theory is applied as a measure of the effect of transactions by a corporation in its own shares upon the interests of creditors and minority stockholders and that there has been

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(1) See this thesis p. 36

(2) See this thesis p. 36

an increasing emphasis upon this concept. Under these circumstances the maintenance of the stated capital of the corporation becomes increasingly important.

The changing concepts of accounting principles of treasury stock are traced in Chapter III. The basic issues of disagreement upon the nature of treasury stock and its proper accounting treatment are discussed in this chapter. These basic issues may be summarized as follows:

(1) The view first expressed by Paton that although there are legal differences between unissued stock and treasury stock, there is no difference that requires accounting recognition. Sanders, Hatfield and Moore did not accept this position.

(2) The degree to which a distinction is made between the capital contributed to the corporation and capital accumulated in the form of earned surplus. Paton and Littleton emphasize the necessity of setting forth the stated capital of the corporation, while, among others, Rosenkampff and Wider stress the necessity of reflecting the value of the outstanding stock.

(3) The accounting relationship between the transaction involved in the reissue of treasury stock and the antecedent transaction that involved its reacquisition. Paton would divorce these transac-

tions, maintaining that they are completely unrelated. With the exception of the procedure of accounting for such transactions developed by Paton, all of the accounting procedures studied relate such transactions.

(4) The effect upon capital stock and surplus accounts caused by the withdrawal of a shareholder from the business enterprise through the sale of his stock to the issuing corporation. Those who contend that treasury stock ia an asset, deny the contention of Paton and Littleton and the American Accounting Association that the payment for the shares reacquired represents a return of capital invested to the retiring shareholder.

(5) The enabling of a corporation to own a share of itself by virtue of its artificial, legal entity. Watson denies that a corporation is able to own a share of itself. Those who support the asset treatment of treasury stock contend that a corporation may own a share of itself.

The attitude of the American Institute of Accountants, the American Accounting Association and the Securities and Exchange Commission toward the proper treatment of treasury stock is discussed in Chapter IV.

The attitude of the American Institute of Accountants is expressed in the "Statement of Accounting Princi-

ples" published in 1938. Treasury stock is not "strictly speaking" an asset but under some circumstances it may be treated as such, but this should be considered the exception and not the rule. Preferably reacquired shares should be shown as a deduction from capital stock. Fundamentally, the Institute would rely upon a analysis of the transaction for the determination of the proper accounting treatment.

The attitude of the American Accounting Association toward the proper accounting treatment of treasury stock is expressed formally in "Accounting Principles Underlying Corporate Financial Statements" published in 1941. A more detailed statement of the same treatment is contained in a monograph by W. A. Paton and A. C. Littleton entitled "Corporate Accounting Standards". The Association contends that the treatment of reacquired shares should be consistent with their nature as captial. Treasury stock, therefore, is never an asset. Since they are capital, their market valuation reflects the valuation of the enterprise as a whole. Three additional concepts develop out of this premise. (1) It is necessary to draw a clear distinction between capital contributed and capital in the form of earned surplus (2) the payment made to the stockholder for the surrender of his shares is in effect a return of his capital upon his retirement from the enterprise. (3) Treasury stock is transitional in nature.

The nature of treasury stock, therefore, governs its accounting treatment. The Institute, on the other hand, considers that the nature of the transaction is the governing factor.

The Attitude of Securities and Exchange Commission is expressed in rule 3-16 of its regulations S-X and in accounting releases No. 5 and No. 6. Treasury stock is in the nature of capital and is not an asset.

During the early thirties corporations bought their own capital stock on a large scale and were often able to resell at much higher prices. In 1934 the Internal Revenue Bureau altered its regulations so that gains and losses on treasury stock transactions were recognized for income tax purposes.

The American Accounting Association held the view that profits and losses could not arise from transactions in a corporation's own shares. The Committee on Accounting Procedure of the American Institute of Accountants presented a report to the Executive Committee of the Institute to the effect that profits and losses could not arise from treasury stock transactions. This report was published in Part II of Accounting Research Bulletin No. 1, but received neither the approval nor the disapproval of the executive committee. In accounting release No. 6 the Securities and Exchange Commission stated that it felt that neither profits or losses could arise from transactions in

a corporation's own shares.

The Internal Revenue Bureau admitted that treasury stock was in the nature of capital, but if a corporation traded in its own shares as it might trade in the shares of another, taxable income could arise from such transactions.

The study of the published balance sheets of 391 industrial corporations for the years 1939 through 1945 discloses that in the year of 1939, 24 per cent of the corporations presenting treasury stock, reported it as an asset; 48 per cent reported treasury stock as a deduction from capital stock; 3 per cent deducted reacquired shares from surplus; and 25 per cent showed reacquired stock as an unallocated deduction from the total of capital stock and surplus.

In 1938 the "Statement of Accounting Principles", published with the full approval of the executive committee of the American Institute of Accountants, expressed as the preferred accounting treatment, the deduction of treasury stock from capital stock. Under certain circumstances the asset treatment was also permitted. In 1939, Accounting Research Bulletin No. 1, part 1, again asserted that the asset treatment was sometimes permissible. Also in 1939, the Securities and Exchange Commission had defined accounting authority, while in the same year the Institute

sought to bind its members to its general pronouncements on accounting procedure, by placing the burden of proof for the use of an exceptional treatment upon the accountant.

The Institute sought to bind its members to the rules adopted by its membership and by its committee on accounting procedure. The weight given by the profession to the advocacy of an accounting treatment of treasury stock or to the expression of a preference for an accounting treatment of treasury stock by the American Institute of Accountants or the American Accounting Association is a question this thesis seeks to answer. The expressed intention is to give the pronouncements of the American Accounting Association and the American Institute of Accountants the force of authority. The membership of the American Institute of Accountants is primarily made up of practicing accountants, while the membership of the American Accounting Association is drawn primarily from academic sources. It would appear, therefore, that the pronouncements of the Institute would have a greater effect upon accounting practice than the pronouncements of the Association. Although the American Accounting Association had expressed its opinion upon the proper accounting treatment of treasury stock in 1936 in the "Tentative Statement of Accounting Principles Affecting Corporate

Reports", the method advocated in this brief statement required the clarification rendered it in the monograph by Paton and Littleton which was not published until 1940.

In 1940 the Securities and Exchange Commission introduced Regulations S-X for the form and content of financial statements. The new Regulations excluded the use of the asset treatment of treasury stock if the stock so held is significant in amount. In 1940, therefore, a total of 10 corporations included in this study abandoned the asset treatment. In adopting an alternative treatment, however, none of the corporations utilized the treatment preferred by the American Institute of Accountants in the "Statement of Accounting Principles". All of the 10 corporations adopted the suspense treatment.

It is not believed that this adoption of the suspense treatment of treasury stock represents an adherance on the part of the profession to the treatment advocated by the American Accounting Association in its brief statement of accounting principles published in 1936, or in the monograph by Paton and Littleton published in 1940. It is pointed out in Chapter VII that only two corporations who reissued or retired treasury stock during the period studied presented paid-in surplus accounts. If the treatment of treasury stock advocated by the American Accounting Association had been followed, a paid-in surplus account or earned surplus, or both, would have been involved.

In 1941, the American Accounting Association advocated the accounting treatment of treasury stock detailed in the monograph by Paton and Littleton. In 1941, three corporations changed from the asset treatment to an alternative treatment. One of them adopted the suspense treatment, one of them adopted the treatment of deducting treasury stock from surplus, and one of them adopted the treatment of deducting treasury stock from capital stock.

It appears, therefore, that the changes in the accounting treatment of treasury stock cannot be attributed to the advocacy of a treatment or the preference for a treatment by the accounting authorities, but, rather, eminates from the profession itself. It has been pointed out that a tendency is manifest, throughout the study, for the development, from time to time, of a trend in the use of a particular accounting treatment of treasury stock on the part of the accounting profession. It is believed that the trend toward the use of the suspense treatment grows out of certain desired attributes possessed by this treatment. It reflects the suspense nature of treasury stock; it meets the increased necessity for reflecting the stated capital of the corporation, and it facilitates the carrying of treasury stock at cost.

Appendix

Corporations Reporting Treasury Stock as an Asset

	1945	1944	1943	1942	1941	1940	1939
Air Reduction Co., Inc.							x
Allegheny Ludlum Steel Corp.		x	x	x	x	x	x
Atlas Powder Company		x	x	x	x	x	x
Barker Bros. Corp.							x
Bendix Aviation Corp.				x	x	x	x
Bon Ami Company				x	x	x	x
Borg-Warner Corp.							x
Canada Dry Ginger Ale, Inc.					x		
Case (J.I.) Company	x	x	x	x	x	x	x
Collins & Arkman Corp.	x	x	x	x	x	x	x
Columbia Broadcasting System, Inc.	x	x	0°	0°	0°	0°	0°
Corn Products Refining Co.							x
Cudahy Packing Co.		x	x	x	x	x	x
DuPont (E.I.) de Nemours & Co.				x	x	x	x
Eagle-Picher Lead Co.	x	x	0°	0°	0°	0°	0°
General American Transportation Corp.			x				
General Electric Company	x	x	x	x	x	x	x

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Corporations Reporting Treasury Stock as an Asset

	1945	1944	1943	1942	1941	1940	1939
General Motors Corp.	x	x	x	x	x	x	x
Hercules Powder Corp.							x
Joy Manufacturing Co.	x	x	x	x	x	x	x
Mathieson Alkali Works, Inc.	x	x	x	x	x	x	x
Minneapolis-Moline Power Implement Co.							x
National Cylinder Gas Co.	x	x	0°	0°	0°	0°	0°
National Steel Corp.	x	x	x				
New York Air Brake Co.						x	x
Republic Steel Corp.							x
Shell Union Oil Corp.							x
Socony-Vacuum Oil Co., Inc.							x
United Fruit Co.			x				
United States Steel Corp.				x	x	x	x
Waldorf System, Inc.	x	x	0°	0°	0°	0°	0°
Wesson Oil & Snowdrift Co.							x
Wrigley (Wm.), Jr. Co.							x
Zenith Radio Corp.	x	x	x	x	x	x	
Alpha Portland Cement Co.				x	x	x	x
American Bank Note Co.			x	x	x	x	

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Appendix

Corporations Reporting Treasury Stock as an Asset

	1945	1944	1943	1942	1941	1940	1939
American Snuff Co.						x	
Briggs & Stratton Corp.						x	x
Butler Brothers							x
Dixie Cup Company	x						
International Shoe Co.	x	x	x	x	x	x	x
Jewel Tea Co., Inc.							x
MacAndrews & Forbes Co.	x	x	x	x	x	x	x
Totals	15	18	16	19	20	23	33

Appendix

Corporations Reporting Treasury Stock
As A Deduction from Capital Stock

	1945	1944	1943	1942	1941	1940	1939
Allis-Chalmers Mfg. Co.	x	x	x	x	x	x	x
American Agricultural Chemical Co.	x	x	x	x	x	x	x
American Crystal Sugar Co.	x	x	x°	x°	x°	x°	x°
American Viscose Corp.	x	x	x	x°	x°	x°	x°
Associated Dry Goods Corp.	x	x	x	x	x	x	x
Atlantic Refining Co.	x	x	x	x	x	x	x
Beatrice Creamery Co.	x°	x°	x°	x°	x°	x°	x°
Best Foods, Inc.					x	x	x
Chicago Pneumatic Tool Co.	0°	0°	0°	0°	0°	0°	x°
Coca-Cola Co.							x
Eastman Kodak Co.	x	x	x	x	x	x	x
Electric Boat Co.	x	x	x°	x°	x°	x°	x°
Eureka Williams Corp.	x	x	x	x°	x°	x°	x°
Fairbanks Co.	x	x	x	x	x	x	x
Federal Motor Truck Co.	x	x	x	x	x	x	x
Firestone Tire and Rubber Co.	x	x	x	x	x	x	x
Follansbee Steel Corp.	x	x	x	x	x	x	x
Gair (Robert) Co., Inc.	x°	x°	x°	x°	x°	x°	x°
General American Transportation Corp.				x	x	x	x

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Corporations Reporting Treasury Stock As A Deduction from Capital Stock

	1945	1944	1943	1942	1941	1940	1939
Gimbel Bros., Inc.	x	x	x	x	x	x	x
Goodrich (B.F.) Co.	x	x	x	x	x	x	x
Gulf Oil Corp.	x	x	x	x	x	x	x
Houdaille-Hershey Corp.	x	x	x	x°	x°	x°	x°
International Harvester Co.		x	x	x	x	x	x
Kayser (Julius) & Co.						x	x
Mead Corp.	x	x	x	x	x	x	x
Monsanto Chemical Co.	x°	x°	x°	x°	x°	x°	x°
Nash-Kelvinator Corp.	x	x	x	x	x	x	x
Pacific Coast Aggregates, Inc.	x	x	x	x	x	x	x
Paramount Pictures, Inc.	x	x	x	x	x	x	x
Peoples Drug Stores, Inc.	x	x	x°	x°	x°	x°	x°
Phelps Dodge Corp.	x	x	x	x	x	x	x
Purity Bakeries Corp.	x	x	x	x	x	x	x
Reynolds Metals Co.		x	x	x	x	x	x
St. Joseph Lead Co.	x°	x°	x°	x°	x°	x°	x°
Sears, Roebuck and Co.						x	x
Square D. Co.	O°	O°	O°	O°	O°	x°	O°
Standard Oil Co. of California						x	

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Corporations Reporting Treasury Stock As A Deduction from Capital Stock

	1945	1944	1943	1942	1941	1940	1939
Sunshine Mining Co.	x	x	x	x	x	x	x
Thompson-Starrett Co., Inc.	x	x	x	x	x	x	x
Timken-Detroit Axle Co.	x	x	x	x	x	x	x
Union Carbide & Carbon Corp.	x	x	x	x	x	x	x
United States Gypsum Co.	x	x	x	x°	x°	x°	x°
United States Leather Co.	x	x	x	x	x	x	x
Alpha Portland Cement Co.	x	x	x				
American Bank Note Co.	x	x					
Archer-Daniels-Midland Co.	x	x	x	x	x	x	x
Champion Paper & Fibre Co.	x	x	x	x	x	x	x
Food Machinery Corp.					x	x	x
General Mills, Inc.	x	x	x	x	x	x	x
Island Creek Coal Co.	x°	x°	x°	x°	x°	x°	x°
Macy (R.H.) & Co., Inc.	x	x	x	x	x	x	x
National Sugar Refining Co. of N.J.	x	x	x	x	x	x	x
Neisner Bros., Inc.		x	x	x	x	x	x
Pet Milk Co.	x	x	x	x	x	x	x
Pittsburgh Coal Co.	x	x	x°	x°	x°	x°	x°

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	Corporations Reporting Treasury Stock As A Deduction from Capital Stock						
	1945	1944	1943	1942	1941	1940	1939
Pure Oil Co.							x
Smith (L.C.) & Corona Typewriters, Inc.	x	x	x	x	x	x	x
Universal Leaf Tobacco Co., Inc.	x°	x°	x°	x°	x°	x°	x°
Vanadium Corp. of America	x	x	x	x	x	x	x
Virginia-Carolina Chemical Corp.	x	x	x	x	x	x	x
Warran Foundary & Pipe Corp.	x	x	x	x	x	x	x
Wayne Knitting Mills	x	x	x°	x°	x°	x°	x°
Wilson-Jones Co.	x	x	x	x	x	x	x
York Corp.	x	x	x	x			
Addressograph-Multigraph Corp.	x°	x°	x°	x°	x°	x°	x°

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Corporations Reporting Treasury Stock as a Deduction from the Total of Capital Stock and Surplus

	1945	1944	1943	1942	1941	1940	1939
Air Reduction Co., Inc.	x		x	x	x	x	
Allied Chemical and Dye Corp.	x	x	x	x	x	x	x
American Chain & Cable Co., Inc.	x	x	x	x	x	x	x
American Radiator & Standard Sanitary Corp.			x	x	x	x	x
American Safty Razor Corp.	x	x	x	x	x	x	x
American Viscose Corp.	x	x	x	x	x	x	x
Atlas Powder Co.	x						
Bristol-Myers Co.	x	x	x	x	x	x	x
Byers (A.M.) Co.	x	x	x	x	x	x	x
Canada Dry Ginger Ale, Inc.	x	x	x	x			
City Ice & Fuel Co.	x°	x°	x°	x°	x°	x°	x°
Continental-Diamond-Fibre Co.	x	x	0°	0°	0°	0°	0°
Corn Products Refining Co.	x	x	x	x	x	x	x
Coty, Inc.	x°	x°	0°	0°	0°	0°	0°
DuPont (E.I.) de Nemours & Co.	x	x	x				
Electric Storage Battery Co.	x	x	x	x	x	x	x
General Refractories Co.	x	x	x	x	x		

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	Corporations Reporting Treasury Stock as a Deduction from the Total of Captial Stock and Surplus						
	1945	1944	1943	1942	1941	1940	1939
General Time Instruments Corp.	x	x°	0°	0°	0°	0°	0°
Guantanomo Sugar Co.	x°	0°	0°	0°	0°	0°	0°
Hercules Powder Co.	x	x	x	x	x	x	
Kayser (Julius) & Co.	x	x	x	x	x		
Lehigh Valley Coal Co.	x	x	x	x	x	x	x
May Department Stores Co.	x	x	x	x	x	x	x
Motor Products Corp.				x	x	x	
Newberry (J.J.) Co.	x	x	x	x	x	x	x
Norwich Pharmical Co.	x	x					
Park and Tilford, Inc.	x	x					
Publicker Industries, Inc.	x	x	0°	0°	0°	0°	0°
Republic Steel Corp.	x	x	x	x	x	x	x
Sloss-Sheffield Steel & Iron Co.	x	x	x	x	x	x	
Socony-Vacuum Oil Co., Inc.	x	x	x	x	x	x	
Sterling Drug (Inc.)	x	x	x	x	x	x	x
Sun Oil Co.	x	x	x	x	x	x	x
Thatcher Manufacturing Co.	x	x	0°	0°	0°	0°	0°
United States Steel Corp.		x	x				
Wesson Oil & Snowdrift Co.	x	x	x	x	x	x	

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	Corporations Reporting Treasury Stock as a Deduction from the Total of Captial Stock and Surplus						
	1945	1944	1943	1942	1941	1940	1939
Wheeling Steel Corp.		x	x	x	x	x	x
Wrigley (Wm.), Jr. Co.	x	x	x	x	x	x	
American Chicle Co.	x	x	x	x	x	x	x
American Ice Co.	x	x	x	x	x	x	x
American Machine & Metals, Inc.	x°	x°	0°	0°	0°	0°	0°
American Snuff Co.	x	x	x	x	x	x	
Barber Asphalt Corp.	x	x	x	x	x	x	x
Briggs & Stratton Corp.	x	x	x	x	x		
Butler Brothers			x	x	x	x	
Campbell, Wyant & Cannon Foundry Co.	x	x°	x°	x°	x°	x°	x°
Clark Equipment Co.	x	x	0	0	0	0	0
Colgate-Palmolive-Peet Co.	x	x	x	x	x	x	x
Cunningham Drug Stores, Inc.	0°	x°	0°	0°	0°	0°	0°
Eaton Manufacturing Co.	x	x	x	x	x	x	x
Flintkote Co.	0	x	x	x	0°	0°	0°
Gardner Denver Co.	0°	x°	0°	0°	0°	0°	0°
General Baking Co.	x	x	x	x	x	x	x
Glidden Co.		x	x	x	x	x	x
Hamilton Watch Co.	x	x					
Hart, Schaffner & Marx	x	x					

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Corporations Reporting Treasury Stock as a Deduction from the Total of Capital Stock and Surplus

	1945	1944	1943	1942	1941	1940	1939
Hershey Chocolate Corp.	x	x	x	x	x	x	x
International Milling Corp.	x	x					
Jewel Tea Co., Inc.	x	x	x	x	x	x	
Johnson & Johnson	x	x					
Kresge (S.S.) Co.	x	x	x	x	x	x	x
Lee Tire and Rubber Corp.	x	x	x	x	x	x	x
National Lead Co.	x	x	x	x	x	x	x
Newport News Shipbuilding and Dry Dock Co.	x	x	x	x			
Safeway Stores, Inc.	x	x	x	x	x	x	x
Spiegel, Inc.	x°	x°	0°	0°	0°	0°	0°
Sweets Company of American, Inc.	x°	x°	0°	0°	0°	0°	0°
Telautograph Corp.	x°	x°	0°	0°	0°	0°	0°
Thompson (John R.) Co.	x	x					
Tidewater Associated Oil Co.	x	x	x	x	x	x	x
Vick Chemical Co.	x	x	x	x	x	x	x
West Virginia Pulp & Paper Co.	x	x	x	x	x	x	x
Wilson & Co., Inc.		x	x	x	x	x	x
Zonite Products Corp.	x	x					

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	Corporations Reporting Treasury Stock as a Deduction from the Total of Capital Stock and Surplus						
	1945	1944	1943	1942	1941	1940	1939
Brunswick-Balke-Collender Co.	x	x	x	x	x	x	x

Appendix

Corporations Reporting Treasury Stock As A Deduction From Surplus

	1945	1944	1943	1942	1941	1940	1939
Conde Nast Publications, Inc.	x	x	x	x	x	x	x
Continental Oil Co.	x	x	x	x	x	x	x
Mineapolis-Moline Power Implement Co.	x	x	x	x	x	x	
Weston Electric Instrument Corp.	x	x	x	x	x	x	
Woolworth (F.W.) Co.	x	x	x	x	x	x	x

Appendix

Corporations Not Reporting Treasury Stock

Abraham and Straus, Inc.

Aldens, Inc.

ACF-Brill Motors Co.

American Bosch Corp.

American Can Co.

American Hide & Leather Co.

American Machine & Foundry Co.

American Smelting & Refining Co.

American Woolen Co.

American Zinc, Lead & Smelting Co.

Anchor Hocking Glass Corp.

Armour & Co.

Aviation Corp.

Best Foods, Inc.

Bliss, (E.W.) Co.

Boeing Airplane Co.

Budd (E.G.) Manufacturing Co.

Burroughs Adding Machine Co.

°Callahan Zinc-Lead Co.

°Cerro de Pasco Copper Corp.

Checker Cab Manufacturing Corp.

Climax Molybdenum Co.

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Corporations Not Reporting Treasury Stock

Columbia Pictures Corp.

Commercial Solvents Corp.

Consolidated Grocers Corp.

Consolidated Retail Stores, Inc.

Container Corporation of America

Crucible Steel Co. of America

Curtiss-Wright Corp.

Davison Chemical Corp.

De Vilbiss Company

Dow Chemical Co.

Elastic Stop Nut Corp. of America

Emerson Radio & Phonograph Co.

Eversharp, Inc.

Federal Mining and Smelting Co.

Fajardo Sugar Co. of Porto Rico

Florence Stove Co.

Gar Wood Industries, Inc.

General Cable Corp.

General Precision Equipment Corp.

Graham-Paige Motors Corp.

°Green (H.L.) Co., Inc.

°Hayes Industries, Inc.

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Corporations Not Reporting Treasury Stock

°Hecht Co.

°Houston Oil Company of Texas

Hudson Bay Mining & Smelting, Ltd.

Hupp Motor Car Corp.

Industrial Rayon Corp.

International Mining & Chemical Corp.

International Paper Co.

Jacobs (F.L.) Co.

Koppers Co.

Lane Bryant, Inc.

Lerner Stores Corp.

Libby, McNeil & Libby

Lima Locomotive Works

Lockheed Aircraft Corp.

Long-Bell Lumber Co.

Lowenstein, (L.) & Sons, Inc.

Mack Trucks, Inc.

Magma Copper Co.

Marshall Field & Co.

Martin Parry Corp.

McCall Corp.

McKesson & Robbins, Inc.

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Corporations Not Reporting Treasury Stock

McQuay Norris Manufacturing Co.

Mengel Co.

°Mid-Continent Petroleum Corp.

Mojud Hosiery Co., Inc.

Murphy (G.C.) Co.

National Biscuit Co.

National Cash Register Co.

National Distillers Products Corp.

°National Linen Service Corp.

New York Shipbuilding Corp.

North American Car Corp.

Ohio Oil Co.

Oppenheim Collins Co.

Otis Elevator Co.

Pacific Mills

Pacific Western Oil Corp.

Parmelee Transportation Co.

Pennsylvania Central Airlines Corp.

Pennsylvania Salt Manufacturing Co.

Pfeiffer Brewing Co.

Philco Corp.

Phillips Petroleum Co.

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Corporations Not Reporting Treasury Stock

°Pittsburgh Forgings Co.

Pressed Steel Car Co., Inc.

Radio-Keith-Orphium Corp.

Rayonier, Inc.

Reeves-Ely Labortories, Inc.

Remington-Rand, Inc.

Republic Pictures Corp.

Rheem Manufacturing Co.

Royal Typewriter Co., Inc.

Scott Paper Co.

Seiberling Rubber Co.

Sharon Steel Corp.

°Simmons Co.

Spalding & Bros., Inc.

Spencer Kellogg & Sons, Inc.

Standard Oil Co. of Indiana

Standard Steel Spring Co.

Studebaker Corp.

Sylvania Electric Products, Inc.

Tennessee Corp.

Texas Gulf Sulphur Co.

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Corporations Not Reporting Treasury Stock

°Thompson Products, Inc.

Transcontinental & Western Air, Inc.

Underwood Corp.

United Air Lines, Inc.

United-Carr Fastener Corp.

United-Rexall Drug Co.

°United States Plywood Corp.

United Stores Corp.

Universal Pictures Co., Inc.

Vertientes Camaguey Sugar Co. of Cuba

Walworth Co.

Warren Bros., Inc.

Westinghouse Air Brake Co.

Westvaco Chlorine Products Corp.

White Sewing Machine Corp.

°Worthington Pump & Machine Corp.

Abbott Laboratories

Adams-Millis Corp.

Allied Kid Co.

Armstrong Cork Co.

Atlas Packing Corp.

Bell and Howell Co.

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Corporations Not Reporting Treasury Stock

Bigelow-Sanford Carpet Co., Inc.

°Braniff Airways, Inc.

Buffalo Forge Co.

Bullard Co.

Burlington Mills Corp.

Carpenter Steel Co.

°Carrier Corp.

Celanese Corp. of America

Central Violeta Sugar Co.

Chile Copper Co.

Cinncinati Milling Machine Co.

Consolidated Cigar Corp.

Corning Glass Works

Crosley Corp.

Crown Zellerbach Corp.

Cuneo Press, Inc.

Cushmans Sons, Inc.

Darco Corp.

Detroit Harvester Co.

Diamond Match Co.

Dresser Industries, Inc.

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Corporations Not Reporting Treasury Stock

Ekco Products Co.

Endicott-Johnson Corp.

Francisco Sugar Co.

°Gabriel Co.

Gillette Safty Razor Co.

Great Western Sugar Co.

Hinde & Dauch Paper Co.

Holly Sugar Corp.

Ingersoll-Rand Co.

°Interchemical Corp.

International Salt Co.

°Kalamazoo Stove and Furnace Co.

Keystone Steel & Wire Co.

°Kinney (G.R.) Co., Inc.

Liggett & Myers Tobacco Co.

Liquid Carbonic Corp.

Maracaibo Oil Exploration Corp.

McCrory Stores Corp.

Merchants and Miners Transportation Co.

Minneapolis-Honeywell Regulator Co.

Monarch Machine Tool Co.

Motor Wheel Corp.

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Corporations Not Reporting Treasury Stock

National Automotive Fibers, Inc.

New York Dock Co.

Noblett Sparks Industries, Inc.

Outlet Co.

°Parker Rust-Proof Co.

Phillip Morris & Co., Ltd, Inc.

Pillsbury Mills, Inc.

Pittsburgh Forgings Co.

Pittsburgh Steel Co.

Pittston Co.

°Real Silk Hosiery Mills, Inc.

Reliance Manufacturing Co.

Reynolds Tobacco Co.

°Seagrave Corp.

Sharp and Dohme, Inc.

Sheaffer Pen Co.

South Porto Rico Sugar Co.

Standard Oil Co. of Ohio

Stokely Van Camp, Inc.

Twentieth Century-Fox Film Corp.

Twin Coach Co.

United Aircraft Corp.

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Corporations Not Reporting Treasury Stock

Union Oil Co.

United Engineering & Foundry Co.

United States Hoffman Machine Corp.

United States Playing Card Co.

United States Rubber Co.

Virginia Coal & Iron Co.

Westinghouse Electric Corp.

Western Auto Supply Co.

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